NEW ISSUE – BOOK–ENTRY ONLY

Insured Ratings:	Uninsured Ratings:
Moody's: Aaa	Moody's: A2
S&P: AAA	S&P: A
Fitch: AAA	Fitch: A
	(see "RATINGS" herein)

In the opinion of Co-Bond Counsel to the State, interest on the Bonds is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes, all as further discussed in "TAX MATTERS" herein.

STATE OF CALIFORNIA

$300,000,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

$237,555,000
GENERAL OBLIGATION REFUNDING BONDS

Dated: April 1, 2006 **Due**: September 1, as shown on the inside cover

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing on September 1, 2006. The Bonds of each maturity will bear interest from their dated date to their maturity or prior redemption at the respective rates set forth on the inside cover page hereof. Bonds may be purchased in book–entry form only, in the principal amount of $5,000 or any integral multiple thereof. See "THE BONDS — General" and APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM."

Certain of the Bonds are subject to redemption prior to their stated maturities, as described herein. See "THE BONDS — Redemption Provisions."

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject only to the prior application of such moneys to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
PRICES OR YIELDS, AND CUSIPS
(See Inside Front Cover)

The Bonds are offered when, as and if issued and received by the initial purchaser, subject to the approval of validity by the Honorable Bill Lockyer, Attorney General of the State of California, by Orrick, Herrington & Sutcliffe LLP and by Robinson & Pearman LLP, Co-Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP served as Disclosure Counsel to the State. Public Resources Advisory Group served as the Financial Advisor to the State. The Bonds are expected to be available for delivery on or about April 26, 2006.

HONORABLE PHILIP ANGELIDES

Treasurer of the State of California

THE BONDS WERE SOLD AT COMPETITIVE BID ON APRIL 12, 2006.
INITIAL REOFFERING YIELDS HAVE BEEN SET BY THE INITIAL PURCHASER

Official Statement Dated: April 12, 2006

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS, AND CUSIPS

$300,000,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Base CUSIP†: 13062R

Maturity Date (September 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†	Maturity Date (September 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†
2006	$ 4,700,000	4.00%	3.45%	5L8	2018c	$ 13,000,000	5.00%	4.31%	5U8
2011	13,000,000	5.00	3.75	5M6	2019c	13,000,000	5.00	4.34	5V6
2012	13,000,000	5.00	3.85	5N4	2020c	9,000,000	5.00	4.37	5W4
2013	10,200,000	5.00	4.02	5P9	2021*	2,500,000	4.25	4.39	5X2
2014	13,000,000	5.00	4.08	5Q7	2022*	2,600,000	4.25	4.38	5Y0
2015	9,300,000	5.00	4.15	5R5	2023*	2,700,000	4.25	4.41	5Z7
2016c	11,000,000	5.00	4.20	5S3	2031	33,600,000	4.75	4.77	6A1
2017c	13,000,000	5.00	4.27	5T1	2032c	33,800,000	5.00	4.62	6B9

$102,600,000 4.75% Term Bonds, due September 1, 2035 - Yield 4.83% CUSIP† 13062R6C7
(Plus accrued interest from April 1, 2006)

$237,555,000
STATE OF CALIFORNIA
GENERAL OBLIGATION REFUNDING BONDS

Base CUSIP†: 13062R

Maturity Date (September 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†	Maturity Date (September 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†
2006	$3,890,000	4.00%	3.45%	6D5	2019c	$ 4,385,000	5.00%	4.29%	6S2
2007	275,000	4.00	3.50	6E3	2020c	4,655,000	5.00	4.34	6T0
2008	285,000	4.00	3.50	6F0	2021*	8,625,000	4.25	4.39	6U7
2009	290,000	4.00	3.56	6G8	2022c	8,560,000	5.00	4.42	6V5
2010	305,000	4.00	3.65	6H6	2023c	8,520,000	5.00	4.45	6W3
2011	310,000	4.00	3.72	6J2	2024c	11,010,000	5.00	4.48	6X1
2012	320,000	4.00	3.82	6K9	2025*	8,415,000	4.50	100	6Y9
2013	335,000	4.00	3.95	6L7	2026*	8,320,000	4.60	100	6Z6
2014	4,625,000	4.00	4.04	6M5	2027c	43,355,000	5.00	4.55	7A0
2015	4,585,000	4.00	4.12	6N3	2028c	31,630,000	5.00	4.58	7B8
2016	4,525,000	4.00	4.18	6P8	2029c	44,245,000	5.00	4.59	7C6
2017	4,465,000	4.00	4.27	6Q6	2030c	27,220,000	5.00	4.60	7D4
2018	4,405,000	4.25	4.36	6R4					

(Plus accrued interest from April 1, 2006)

† A registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw–Hill Companies, Inc.

c Priced to call on March 1, 2016 at par.

* At the request of the initial purchaser, payment of the principal of and interest on the Construction Bonds maturing September 1, 2021 through September 1, 2023, inclusive and the Refunding Bonds maturing September 1, 2021, September 1, 2025 and September 1, 2026 (collectively, the "Ambac Insured Bonds") when due will be insured by a financial guaranty insurance policy to be issued by Ambac Insurance Corporation simultaneously with the delivery of the Bonds. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS – Bond Insurance for Construction Bonds maturing on September 1, 2021 through September 1, 2023, inclusive and for Refunding Bonds maturing September 1, 2021, September 1, 2025 and September 1, 2026 Only."

TABLE OF CONTENTS

Copies of this Official Statement may be obtained from:

HONORABLE PHILIP ANGELIDES
Treasurer of the State of California
P.O. Box 942809
Sacramento, California 94209–0001
1–800–900–3873

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OFFICIAL STATEMENT

STATE OF CALIFORNIA

$300,000,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

$237,555,000
GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

This Introduction contains only a brief summary of the terms of the Bonds and a brief description of the Official Statement; a full review should be made of the entire Official Statement, including the Appendices and the financial statements incorporated by reference. Summaries of provisions of the Constitution and laws of the State of California or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by references to the complete provisions.

Description of the Bonds

This Official Statement presents certain information relating to the State of California (the "State") in connection with the sale of general obligation bonds consisting of (i) $300,000,000 aggregate principal amount of State various purpose general obligation bonds comprised of two series of bonds (the "Construction Bonds") and (ii) $237,555,000 aggregate principal amount of State general obligation refunding bonds comprised of six series of bonds (the "Refunding Bonds" and collectively with the Construction Bonds, the "Bonds"). The Bonds are described further below under "THE BONDS — Identification and Authorization of the Bonds."

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book–entry form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS — General" and APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM."

The Bonds are authorized by Bond Acts (defined in "AUTHORIZATION OF AND SECURITY FOR THE BONDS — Authorization") approved by the voters of the State and by resolutions of applicable finance committees (the "Resolutions") created under the Bond Acts. Each issue of Bonds has the same terms and is equally secured. The Construction Bonds are being issued to current refund outstanding State general obligation commercial paper notes, or to repay internal State loans, which financed various projects under the respective Bond Acts, and pay certain costs of issuance of the Bonds. The Refunding Bonds are being issued to advance refund certain State general obligation bonds and to pay certain costs of issuance of the Bonds. See "THE BONDS — Purposes of the Bonds."

Security and Source of Payment for the Bonds

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS — Security." Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from moneys in the General Fund of the State Treasury (the "General Fund") subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See APPENDIX A — "THE STATE OF CALIFORNIA — STATE FINANCES — The General Fund" and "STATE INDEBTEDNESS AND OTHER OBLIGATIONS — Capital Facilities Financing — General Obligation Bonds." The Bond Acts authorizing the Bonds provide that the State shall collect annually, in the same manner and at the same time as it collects other State revenues, a sum sufficient, in addition to the ordinary revenues of the State, to pay the principal of and interest on the Bonds.

Redemption

The Bonds of certain maturities will be subject to optional redemption prior to their respective stated maturity dates, in whole or in part, and to mandatory redemption prior to their respective stated maturities, in part, from sinking fund payments made by the State to the extent the successful bidder for the Bonds so designates. See "THE BONDS — Redemption Provisions."

Information Related to this Official Statement

The information set forth herein has been obtained from official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder or any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. However, certain statements included or incorporated by reference in this Official Statement do constitute "forward–looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward–looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward–looking statements. Any statements made in this Official Statement involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

A wide variety of other information, including financial information, concerning the State is available from State agencies, State agency publications and State agency websites. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted in APPENDIX A — "THE STATE OF CALIFORNIA — FINANCIAL STATEMENTS."

The information in APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM" has been furnished by DTC and no representation is made by the State or the Financial Advisor as to the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the State to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction.

Plan of Distribution

The Bonds were sold pursuant to a competitive bid on April 12, 2006.

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the "Annual Report"), commencing with the report containing 2005–2006 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events if material. The specific nature of the information to be contained in the Annual Report and the notices of material events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C — "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The State has not failed to comply, in all material respects, with any "previous undertakings," as that term is used in Rule 15c2–12 (the "Rule") promulgated under the Securities and Exchange Act of 1934, as amended.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

Each general obligation bond act authorizing the issuance of the Bonds (collectively, the "Bond Acts") incorporates by reference the State General Obligation Bond Law (the "Law") in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code. The Law provides for the authorization, sale, issuance, use of proceeds, repayment and refunding of State general obligation bonds.

Security

The Bonds are general obligations of the State, payable in accordance with the Bond Acts out of the General Fund. The Bond Acts provide that the State will collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient, in addition to the ordinary revenue of the State, to pay principal of and interest on the Bonds. The Bond Acts also contain a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the Bonds as they become due and payable. It is an event of default of the State to fail to pay or to fail to cause to be paid the principal of or interest on the Bonds when due or to declare a moratorium on the payment of, or to repudiate any Bond.

The full faith and credit of the State are pledged for the punctual payment of the principal of and the interest on the Bonds. All payments of principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, have an equal claim to the General Fund, subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See APPENDIX A — "THE STATE OF CALIFORNIA — STATE

INDEBTEDNESS AND OTHER OBLIGATIONS — Capital Facilities Financing — General Obligation Bonds."

Remedies

It is an event of default of the State under the Resolutions authorizing the Bonds pursuant to the respective Bond Acts to fail to pay or to fail to cause to be paid, when due, or to declare a moratorium on the payment of, or to repudiate any Bond.

In the case one or more events of default occurs, then and in every such case the registered Bondholder is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in the Resolutions authorizing the Bonds, as more specifically set forth in each Resolution authorizing the Bonds pursuant to the respective Bond Acts. Beneficial Owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "THE BONDS — General," and APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM."

Bond Insurance for Construction Bonds maturing on September 1, 2021 through September 1, 2023, inclusive and for Refunding Bonds maturing September 1, 2021, September 1, 2025 and September 1, 2026 Only.

The following information has been furnished by Ambac Assurance Corporation ("Ambac") for use in this Official Statement. Reference is made to Appendix E for a specimen of Ambac's policy (the "Ambac Policy"). No representation is made by the State or Co-Bond Counsel as to the accuracy or completeness of the following information.

Ambac has made a commitment to issue a financial guaranty insurance policy (the "Ambac Policy") relating to the Construction Bonds maturing on September 1, 2021 through 2023, inclusive, and the Refunding Bonds maturing September 1, 2021, September 1, 2025 and September 1, 2026 (collectively, the "Ambac Insured Bonds") effective as of the date of issuance of the Bonds. Under the terms of the Ambac Policy, Ambac will pay to The Bank of New York, New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Ambac Policy). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest become Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the State Treasurer. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the State Treasurer has notice that any payment of principal of or interest on the Ambac Insured Bonds which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Policy does **not** insure any risk other than Nonpayment, as defined in the Ambac Policy. Specifically, the Ambac Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any of the State Treasurer, paying agent or bond registrar, if any.

If it becomes necessary to call upon the Ambac Policy, payment of principal requires surrender of the Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Policy. Payment of interest pursuant to the Ambac Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the Ambac Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac Insured Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac was to become insolvent, any claims arising under the Ambac Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,994,000,000 (unaudited) and statutory capital of $5,649,000,000 (unaudited) as of December 31, 2005. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in the Ambac Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Ambac Insured Bonds.

Ambac makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac and presented under the headings "AUTHORIZATION OF AND SECURITY FOR THE BONDS – Bond Insurance for Construction Bonds maturing on September 1, 2021 through September 1, 2023, inclusive and for Refunding Bonds maturing September 1, 2021, September 1, 2025 and September 1, 2026 Only."

Available Information Regarding Ambac. The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference. The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

> The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information Regarding Ambac."

THE BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book–entry form only in denominations of $5,000 or any integral multiple thereof. See APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM." The information in APPENDIX B — "DTC AND THE BOOK–ENTRY SYSTEM" has been furnished by DTC and no representation is made by the State, the Financial Advisor or the initial purchaser as to the accuracy or completeness of such information.

Neither the State Treasurer nor the initial purchaser can or does give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State Treasurer nor the initial purchaser is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The Bonds will be dated April 1, 2006 and will mature on September 1 of the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable on March 1 and September 1 in each year (each, an "Interest Payment Date"), commencing on September 1, 2006, at the rates shown on the inside cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360–day year comprising twelve 30–day months.

Principal and interest are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Participants in DTC for disbursement to the Beneficial Owners of the Bonds. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an Interest Payment Date, whether or not the record date falls on a business day.

Identification and Authorization of the Bonds

Construction Bonds

Certain of the Bonds (the "Construction Bonds") are being issued to current refund outstanding State general obligation commercial paper notes (the "Notes"), or to repay internal State loans, which financed various projects under the Bond Acts identified below. The Construction Bonds are issued as two separate series under two separate Bond Acts, each authorized by the voters, as set forth below:

$295,000,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series H, authorized by the State School Building Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2004.

$5,000,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series V, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

Refunding Bonds

Certain of the Bonds (the "Refunding Bonds") are being issued to advance refund certain State general obligation bonds. The Refunding Bonds are issued as six separate series under five Bond Acts, authorized by the voters pursuant to the Bond Acts as set forth below:

$23,035,000 principal amount of State of California Clean Air and Transportation Bonds, Series AS, authorized by the Transportation Improvement Finance Committee under the Clean Air and Transportation Improvement Act of 1990.

$95,230,000 principal amount of State of California Seismic Retrofit Bonds, Series AF, authorized by the Seismic Retrofit Finance Committee under the Seismic Retrofit Bond Act of 1996.

$82,865,000 principal amount of State of California Class Size Reduction Kindergarten-University Public Education Facilities Bonds, Series BN, authorized by the State School Building Finance Committee under the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998.

$19,950,000 principal amount of State of California Class Size Reduction Kindergarten-University Public Education Facilities Bonds, Series BO, authorized by the Higher Education Facilities

Finance Committee under the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998.

$7,775,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series W, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

$8,700,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series W, authorized by the Higher Education Facilities Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2002.

Purposes of the Bonds

The Construction Bonds are being issued to current refund outstanding State general obligation commercial paper notes (the "Notes"), or to repay internal State loans, which financed various projects under the respective Bond Acts and to pay certain costs of issuance of the Bonds. The Notes will be repaid within 90 days after the issuance of the Construction Bonds so as to constitute a "current refunding" for federal tax purposes. The Refunding Bonds are being issued to advance refund certain State general obligation bonds and to pay certain costs of issuance of the Bonds.

Plan of Refunding

The State Treasurer will apply the net proceeds of the sale of the Refunding Bonds in the amount of $242,268,265.09, and other lawfully available moneys, to establish an escrow account, to be deposited in a special trust fund in the State Treasury, to advance refund $230,880,000 of selected maturities of outstanding State general obligation bonds on their redemption dates (the "Prior Bonds).

The Prior Bonds will be paid on the redemption dates and at the redemption prices as shown in the table below. As used in the table, "Prior Bonds" means an issue of State general obligation bonds consisting of multiple series under separate Bond Acts, having a dated date as shown in the first column.

In the table below, the difference between the amounts in the column "Aggregate Par Amount" and the column "Par Amount to be Refunded" represents bonds allocated to certain Bond Acts which bonds are not legally able to be refunded or which do not provide sufficient savings, and that amount of the Prior Bonds will remain outstanding after the redemption date. Following delivery of the Refunding Bonds, the State Treasurer plans to request that Standard & Poor's CUSIP Service Bureau provide separate CUSIP numbers for the Prior Bonds maturities, and to ask DTC to allocate by lot those maturities between refunded and non–refunded bonds. DTC would then notify its Direct Participants of the resulting status of the Prior Bonds.

Prior Bonds to be Refunded

Dated Date of Prior Bonds	CUSIP* (13062)	Par Amount to be Refunded	Aggregate Par Amount	Maturity Date	Coupon	Redemption Date	Redemption Price
10/01/1997	8PV6	$ 2,565,000	$ 126,860,000	10/01/2027	5.125%	10/01/2007	101%
04/01/2000	RDB1	4,205,000	7,115,000	05/01/2015	5.625	05/01/2010	101
04/01/2000	RQ35	4,205,000	8,695,000	05/01/2016	5.625	05/01/2010	101
04/01/2000	RQ43	4,205,000	8,695,000	05/01/2017	5.625	05/01/2010	101
04/01/2000	RQ50	4,205,000	8,695,000	05/01/2018	5.625	05/01/2010	101
04/01/2000	RQ68	4,205,000	8,695,000	05/01/2019	5.625	05/01/2010	101
04/01/2000	RQ76	4,205,000	8,695,000	05/01/2020	5.625	05/01/2010	101
04/01/2000	RQ84	4,490,000	8,175,000	05/01/2021	5.625	05/01/2010	101
04/01/2000	RQ92	4,490,000	8,175,000	05/01/2022	5.625	05/01/2010	101
04/01/2000	RR26	17,960,000	32,700,000	05/01/2026	5.625	05/01/2010	101
04/01/2000	RR34	17,960,000	32,700,000	05/01/2030	5.750	05/01/2010	101
09/01/2000	9P69	47,060,000	50,000,000	09/01/2028	5.250	09/01/2010	100
09/01/2000	9P28	47,060,000	50,000,000	09/01/2030	5.250	09/01/2010	100
10/01/2000	RXE3	4,030,000	6,045,000	10/01/2021	5.250	10/01/2010	100
10/01/2000	RXF0	4,030,000	6,045,000	10/01/2022	5.250	10/01/2010	100
10/01/2000	RXG8	4,030,000	6,045,000	10/01/2023	5.250	10/01/2010	100
10/01/2000	RXH6	4,030,000	6,045,000	10/01/2024	5.250	10/01/2010	100
10/01/2000	RXJ2	4,030,000	6,045,000	10/01/2025	5.375	10/01/2010	100
10/01/2000	RXK9	4,030,000	6,045,000	10/01/2026	5.375	10/01/2010	100
10/01/2000	RXC7	4,030,000	6,045,000	10/01/2027	5.375	10/01/2010	100
10/01/2000	RXD5	4,030,000	6,045,000	10/01/2028	5.375	10/01/2010	100
10/01/2000	RXM5	8,060,000	12,090,000	10/01/2030	5.500	10/01/2010	100
04/01/2004	PSA1	11,300,000	103,710,000	04/01/2028	5.500	04/01/2014	100
04/01/2004	PSD5	12,465,000	114,345,000	04/01/2030	5.500	04/01/2014	100
		$ 230,880,000	$ 637,705,000				

* CUSIPs are provided for convenience only and are not guaranteed as to accuracy.

Redemption Provisions

Optional Redemption of Bonds

The Bonds maturing on or before September 1, 2015 are not subject to optional redemption prior to their respective maturities. The Bonds maturing on and after September 1, 2016 are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after March 1, 2016 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Sinking Fund Redemption

The Construction Bonds maturing on September 1, 2035 (the “Term Bonds”) are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments made by the State, at a redemption price of 100% of the principal amount thereof plus accrued interest to the sinking fund payment date fixed for redemption, without premium, on September 1 of the years, and in the amounts designated below for the Bonds:

Term Bonds Due September 1, 2035

Sinking Fund Payment Date (September 1)	Principal Amount Redeemed
2033	$34,000,000
2034	$34,200,000
2035*	$34,400,000

*Maturity date.

If a Term Bond is called for optional redemption in part (see “Optional Redemption of Bonds” above), the remaining sinking fund installments for such Term Bonds shall be adjusted as determined by the State Treasurer.

Notice of Redemption

When redemption is required while the Bonds are in book–entry form, the State Treasurer is to give notice of redemption by mailing copies of such notice only to DTC (not to the Beneficial Owners of the Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its participants for distribution to the Beneficial Owners of the Bonds. See APPENDIX B — “DTC AND THE BOOK–ENTRY SYSTEM.” The notice from the State Treasurer will state, among other things, that the Bonds or a designated portion thereof (in the case of partial redemption of a Bond) are to be redeemed, the dated date of the Bonds, the date fixed for redemption, the maturities of the Bonds to be redeemed and the redemption price. The notice will also state that after the date fixed for redemption no further interest will accrue on the principal of any Bonds called for redemption. The notice of redemption may also state that such redemption may be cancelled in whole or in part by the State Treasurer upon written notice to DTC no later than five business days prior to the date fixed for redemption. Notice of redemption will also be provided by mail to certain financial information services and securities depositories.

Annual Debt Service Requirements

The following table sets forth the amounts required to be made available for the payment of principal (whether at maturity or by sinking fund payments), interest and the total payments due on the Construction Bonds.

Fiscal Year Ended June 30	Principal	Interest	Fiscal Year Total Debt Service
2007	$ 4,700,000.00	$ 13,247,307.20	$ 17,947,307.20
2008	--	14,366,000.00	14,366,000.00
2009	--	14,366,000.00	14,366,000.00
2010	--	14,366,000.00	14,366,000.00
2011	--	14,366,000.00	14,366,000.00
2012	13,000,000.00	14,041,000.00	27,041,000.00
2013	13,000,000.00	13,391,000.00	26,391,000.00
2014	10,200,000.00	12,811,000.00	23,011,000.00
2015	13,000,000.00	12,231,000.00	25,231,000.00
2016	9,300,000.00	11,673,500.00	20,973,500.00
2017	11,000,000.00	11,166,000.00	22,166,000.00
2018	13,000,000.00	10,566,000.00	23,566,000.00
2019	13,000,000.00	9,916,000.00	22,916,000.00
2020	13,000,000.00	9,266,000.00	22,266,000.00
2021	9,000,000.00	8,716,000.00	17,716,000.00
2022	2,500,000.00	8,437,875.00	10,937,875.00
2023	2,600,000.00	8,329,500.00	10,929,500.00
2024	2,700,000.00	8,216,875.00	10,916,875.00
2025	--	8,159,500.00	8,159,500.00
2026	--	8,159,500.00	8,159,500.00
2027	--	8,159,500.00	8,159,500.00
2028	--	8,159,500.00	8,159,500.00
2029	--	8,159,500.00	8,159,500.00
2030	--	8,159,500.00	8,159,500.00
2031	--	8,159,500.00	8,159,500.00
2032	33,600,000.00	7,361,500.00	40,961,500.00
2033	33,800,000.00	5,718,500.00	39,518,500.00
2034*	34,000,000.00	4,066,000.00	38,066,000.00
2035*	34,200,000.00	2,446,250.00	36,646,250.00
2036	34,400,000.00	817,000.00	35,217,000.00
Total	$ 300,000,000.00	$ 286,998,807.20	$ 586,998,807.20

*Sinking fund redemption.

The following table sets forth the amounts required to be made available for the payment of principal (whether at maturity or by sinking fund payments), interest and the total payments due on the Refunding Bonds.

Fiscal Year Ended June 30	Principal	Interest	Fiscal Year Total Debt Service
2007	$ 3,890,000.00	$ 10,429,652.19	$ 14,319,652.19
2008	275,000.00	11,301,470.00	11,576,470.00
2009	285,000.00	11,290,270.00	11,575,270.00
2010	290,000.00	11,278,770.00	11,568,770.00
2011	305,000.00	11,266,870.00	11,571,870.00
2012	310,000.00	11,254,570.00	11,564,570.00
2013	320,000.00	11,241,970.00	11,561,970.00
2014	335,000.00	11,228,870.00	11,563,870.00
2015	4,625,000.00	11,129,670.00	15,754,670.00
2016	4,585,000.00	10,945,470.00	15,530,470.00
2017	4,525,000.00	10,763,270.00	15,288,270.00
2018	4,465,000.00	10,583,470.00	15,048,470.00
2019	4,405,000.00	10,400,563.75	14,805,563.75
2020	4,385,000.00	10,197,332.50	14,582,332.50
2021	4,655,000.00	9,971,332.50	14,626,332.50
2022	8,625,000.00	9,671,676.25	18,296,676.25
2023	8,560,000.00	9,274,395.00	17,834,395.00
2024	8,520,000.00	8,847,395.00	17,367,395.00
2025	11,010,000.00	8,359,145.00	19,369,145.00
2026	8,415,000.00	7,894,557.50	16,309,557.50
2027	8,320,000.00	7,513,860.00	15,833,860.00
2028	43,355,000.00	6,238,625.00	49,593,625.00
2029	31,630,000.00	4,364,000.00	35,994,000.00
2030	44,245,000.00	2,467,125.00	46,712,125.00
2031	27,220,000.00	680,500.00	27,900,500.00
Total	$ 237,555,000.00	$ 228,594,829.69	$ 466,149,829.69

Supplemental Resolutions

The State may modify or amend the Resolutions with respect to any outstanding Bonds and the rights and obligations of the Holders of such outstanding Bonds and the State at any time by a Supplemental Resolution, without notice to or the consent of any Holder, but only to make such provisions for the purpose of (i) curing any ambiguity, curing, correcting or supplementing any defective provision contained in the Resolutions, or (ii) complying with requirements of the Code in order to satisfy the covenants of the Resolutions relating to tax exemption of interest on the Bonds; in each case as the Committee may deem necessary or desirable and not inconsistent with the Resolutions, and which shall not adversely affect the interests of the Holders of the affected Bonds.

Defeasance

Pursuant to the Bond Acts and the provisions of California Government Code Section 16780 et seq. (the “Refunding Law”), refunding bonds may be issued to refund outstanding Bonds at or prior to their stated maturity. Pursuant to Government Code Section 16784 of the Refunding Law, the proceeds of such refunding Bonds shall be deposited into the Refunding Escrow Fund of the State Treasury, which Fund is irrevocably dedicated to pay the principal of, premium, if any, and interest on the refunded Bonds as it comes due. If Defeasance Obligations sufficient to pay all of the principal of, premium, if any, and interest on the refunded Bonds to their maturity or date fixed for redemption are so deposited in the Refunding Escrow Fund, the refunded Bonds will no longer be deemed outstanding for purposes of the Resolution. Except in the case of the defeasance of Bonds by the deposit of the full amount of the principal and interest due until redemption or maturity, the sufficiency of the deposit in the Fund will be verified by a firm of independent public accountants.

The Resolution relating to the Kindergarten-University Public Education Facilities Bond Act of 2004 (see " — Identification and Authorization of the Bonds – Construction Bonds" above) specifically defines "Defeasance Obligations" for these purposes as follows: (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, including receipts, certificates or any other evidences of an ownership interest in (i) or in specified portions thereof, which are rated in the highest rating category by each rating agency rating such obligations; (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States; (iii) pre-refunded municipal bonds which are rated in the highest rating category by each rating agency rating such bonds; (iv) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended and bonds of any federal home loan bank established under that act; obligations of the Federal Home Loan Mortgage Corporation; bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended; and bonds, notes and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended, provided, however that the Defeasance Obligations specified in this paragraph (iv) shall be rated by at least two of any three rating agencies rating such obligations not lower than the higher of (1) the rating on the Bonds to be defeased at the time of the original issuance thereof and (2) the rating on the Bonds to be defeased at the time of defeasance; (v) deposit in the State Surplus Money Investment Fund; or (vi) any other investment designated in a Supplemental Certificate as a Defeasance Obligation for purposes of defeasing the Bonds authorized by such Supplemental Certificate, provided that each rating agency has confirmed in writing to the Treasurer that the use of such other investment will not, by itself, result in the withdrawal, suspension or downgrade of any rating issued by such rating agency with respect to any such Bonds defeased.

LEGAL MATTERS

The opinion of the Honorable Bill Lockyer, Attorney General of the State of California (the "Attorney General"), approving the validity of the Bonds will accompany the Bonds deposited with DTC. The opinions of Orrick, Herrington & Sutcliffe LLP and Robinson & Pearman LLP, Co-Bond Counsel to the State, approving the validity of the Bonds and addressing certain tax matters will also accompany the Bonds deposited with DTC. The proposed forms of legal opinions for the Bonds are set forth in APPENDIX D. See "TAX MATTERS" and APPENDIX D — "PROPOSED FORMS OF LEGAL OPINIONS." Orrick, Herrington & Sutcliffe LLP served as Disclosure Counsel to the State.

The Attorney General and Co-Bond Counsel, respectively, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP and Robinson & Pearman LLP, Co-Bond Counsel to the State, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Bond Counsel are of the further opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinions of Co-Bond Counsel is set forth in APPENDIX D — "PROPOSED FORMS OF LEGAL OPINIONS."

The amount (if any) by which the issue price of the Bonds of any given maturity date is less than the amount to be paid on such date (excluding amounts stated to be interest and payable at least annually over term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Bonds of any maturity date accrues daily over the term to such maturity date on the basis of a constant interest rate compounded semiannually (with straight–line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price which a substantial amount of such Bonds is sold to the public.

Any Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax–exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Bonds. The opinions of Co-Bond Counsel assume compliance with these covenants, as well as the accuracy of the computations of actuarial yield described under the caption "VERIFICATION OF MATHEMATICAL COMPUTATIONS" below. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to the attention of Co-Bond Counsel after the date of delivery of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Although Co-Bond Counsel are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Co-Bond Counsel expresses no opinion.

The opinions of Co-Bond Counsel are based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Co-Bond Counsel cannot give and have not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Co-Bond Counsel are not obligated to defend the State or the Beneficial Owners regarding the tax–exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the Beneficial Owners, would have little if any right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax–exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the State or the Beneficial Owners to incur significant expense.

LITIGATION

The Attorney General has advised that to his knowledge there is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State taken with respect to the foregoing.

At any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate outcome and fiscal impact of such litigation, the State believes that it is unlikely that the outcome of any such litigation could adversely affect the ability of the State to pay the principal of and interest on the Bonds when due. See APPENDIX A — "THE STATE OF CALIFORNIA — LITIGATION."

FINANCIAL STATEMENTS

Audited Basic Financial Statements of the State for the Fiscal Year ended June 30, 2004 (the "Financial Statements") have been filed with all of the Repositories as part of the Official Statement for certain State of California Bonds sold in 2005 and are incorporated by reference into this Official Statement. The Financial Statements are also available through electronic means. See APPENDIX A—"THE STATE OF CALIFORNIA—Financial Statements" for further information on how to obtain or view the Financial Statements.

Although the State's continuing disclosure undertakings for its prior bond sales provide that the State will file, with its Annual Reports due on April 1, 2006, a copy of the audited basic financial statements of the State of California for the 2004-05 fiscal year, the State Controller has informed the State Treasurer that because of complications arising from reorganization of certain State agencies during the past year, the audited basic financial statements would not be available as of April 1, 2006. As required by its various undertakings, the State filed the Annual Reports on March 30, 2006 containing unaudited basic financial statements of the State of California for the 2004-05 fiscal year, together with all the other information required to be filed.

The unaudited basic financial statements are incorporated by reference in this Official Statement. They will be available through the website of the State Treasurer or through municipal securities information repositories. They consist of government-wide financial statements, fund financial statements and notes to the basic financial statements, prepared in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The audited basic financial statements will be filed with the repositories as soon as they are available, which is presently expected to be prior to May 1, 2006. Upon such filing, the audited basic financial statements will be incorporated by reference in this Official Statement and will supersede the unaudited financial statements.

Certain unaudited financial information for the year ended June 30, 2005, and for the nine months ended March 31, 2006, is included as Exhibit 1 and Exhibit 2 to Appendix A and such information is incorporated by reference in this Official Statement. See APPENDIX A—"EXHIBIT 1—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2004 THROUGH JUNE 30, 2005 (UNAUDITED)" and APPENDIX A—"EXHIBIT 2—STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2005 THROUGH MARCH 31, 2006 (UNAUDITED)."

RATINGS

The Ambac Insured Bonds have received the ratings of "Aaa" by Moody's Investors Service ("Moody's), "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P"), and "AAA" by Fitch Ratings ("Fitch"). The uninsured Bonds have received the ratings of "A2" by Moody's Investors Service ("Moody's), "A" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P"), and "A" by Fitch Ratings ("Fitch"). An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State can not predict the timing or impact of future actions by the rating agencies. See APPENDIX A — "THE STATE OF CALIFORNIA — INTRODUCTION TO APPENDIX A — California's Credit History."

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Refunding Bonds, Causey, Demgen & Moore Inc., independent certified public accountants, will deliver a report that the firm has verified (a) the mathematical accuracy of certain computations relating to the adequacy of the deposits to be made to the escrow accounts to pay the amounts required as described under "THE BONDS — Plan of Refunding" above and (b) the computations of yield of the Bonds and of the investments in the escrow account used to refund the Prior Bonds. Co-Bond Counsel will rely upon this report in reaching their conclusion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

FINANCIAL ADVISOR

Public Resources Advisory Group served as the Financial Advisor to the State in connection with the issuance of the Bonds.

ADDITIONAL INFORMATION

The State Treasurer will execute a certificate upon delivery of the Bonds to the effect that, to the best of the State Treasurer's knowledge, information and belief, as of the delivery date, the information and statements contained in this Official Statement are complete, true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

STATE OF CALIFORNIA
PHILIP ANGELIDES
Treasurer of the State of California

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APPENDIX A

THE STATE OF CALIFORNIA

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APPENDIX A

THE STATE OF CALIFORNIA

Honorable Philip Angelides

Treasurer of the State of California

TABLE OF CONTENTS

INTRODUCTION TO APPENDIX A

Importance of APPENDIX A. APPENDIX A is the part of the Official Statement that provides investors with information concerning the State of California. Investors are advised to read the entire Official Statement, including APPENDIX A, to obtain information essential to making an informed investment decision. Certain abbreviations and defined terms are shown at the end of this Introduction.

Payment Priority of General Obligation Bonds. The Bonds are general obligations of the state to which the full faith and credit of the State are pledged. Principal of, premium, if any, and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject only to the prior application of such moneys to the support of the public school system and public institutions of higher education.

California's Credit History. California has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-purchase obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

After reaching their lowest point in 2003, the ratings of the state's general obligation bonds have been raised by all three rating agencies in 2004 and 2005. Standard & Poor's has raised the state's general obligation credit rating from "BBB" to "A." Moody's has raised the rating from "Baa1" to "A2." Fitch has raised the rating from "BBB" to "A." The most recent actions by Moody's and Fitch both took place in July, 2005.

Any revisions or withdrawal of a credit rating could have an effect on the market price and liquidity of the Bonds. The state cannot predict the timing or impact of future actions by the rating agencies. See also "RATINGS" in the forepart of this Official Statement.

Overview of APPENDIX A. Following the Introduction, APPENDIX A begins with a discussion of certain recent developments and a description of the types of debt instruments that the state has issued and is authorized to issue in the future. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." A discussion of the state's current and projected cash flow is contained under "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Cash Flow Borrowings."

APPENDIX A continues with a discussion of the sources and uses of state funds. See "STATE FINANCES." The budget process and constraints on this process, as well as the budget proposed by the Governor and the economic assumptions underlying the revenue projections contained in the proposed budget, are discussed under "THE BUDGET PROCESS" and "CURRENT STATE BUDGET."

APPENDIX A incorporates by reference the Audited Annual Financial Statements of the state for the Year Ended June 30, 2004, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2004. In addition, APPENDIX A contains the State Controller's unaudited report of cash receipts and disbursements for the period July 1, 2004 through June 30, 2005 and July 1, 2005 through March 31, 2006. See "FINANCIAL STATEMENTS."

Governance, management and employee information is set forth under "OVERVIEW OF STATE GOVERNMENT." Demographic and economic statistical information is included under "ECONOMY AND POPULATION." APPENDIX A concludes with a description of material litigation involving the state (see "LITIGATION") and debt tables (see "STATE DEBT TABLES").

Certain Defined Terms. The following terms and abbreviations are used in this Appendix A:

"2004 Budget Act" means the Budget Act for the 2004-05 Fiscal Year, adopted on July 31, 2004.

"2005-06 Governor's Budget" means the Governor's Proposed Budget for the 2005-06 Fiscal Year, released on January 10, 2005.

"2005-06 May Revision" means the May Revision of the 2005-06 Governor's Budget, released on May 13, 2005.

"2005 Budget Act" means the Budget Act for the 2005-06 Fiscal Year, adopted on July 11, 2005.

"2006-07 Governor's Budget" means the Governor's Proposed Budget for the 2006-07 Fiscal Year, released on January 10, 2006.

Reference to the "state" as a noun or adjective means the State of California, following the practice of the Department of Finance.

RECENT DEVELOPMENTS REGARDING STATE ECONOMY AND FINANCES

This section discusses certain significant developments regarding the state's economy or finances. While there have been no significant developments since the date of the Official Statement, dated March 1, 2006, relating to $800,000,000 State of California Various Purpose General Obligation Bonds the following matters were noted in that Official Statement. Investors are advised to read this entire Appendix A.

Governor Schwarzenegger released his proposed budget for the 2006-07 Fiscal Year on January 10, 2006. This document contained updated revenue estimates for the 2005-06 and 2006-07 fiscal years, and the proposed spending plan for 2006-07. It also contained updated economic forecasts upon which the revenue estimates and budget proposals were based. See "CURRENT STATE BUDGET – Proposed Fiscal Year 2006-07 Budget".

The 2006-07 Governor's Budget estimates that state General Fund revenues have been significantly higher than previously estimated both for 2004-05 and 2005-06. The budgetary reserve is now estimated to have been about $9.1 billion at June 30, 2005, and is projected to be $6.5 billion at June 30, 2006. The reduction reflects 2005-06 General Fund expenditures in excess of revenues by about $2.6 billion.

The 2006-07 Governor's Budget proposes a spending plan for 2006-07 totaling $125.6 billion (including General Fund, special funds, and bond funds), of which $97.9 billion will be from the General Fund. General Fund revenues and transfers are estimated at $91.5 billion, with the difference being paid from the accumulated budget surplus from June 30, 2006. The proposal projects that the budget reserve will be about $613 million at June 30, 2007, including an initial deposit of $460 million to the Budget Stabilization Account created under Proposition 58 of 2004. See "THE BUDGET PROCESS – Constraints on the Budget Process – Proposition 58 (Balanced Budget Amendment)."

The 2006-07 Governor's Budget projects continuing economic growth in the nation and in California in calendar 2006 and 2007, though at a slower rate than has been shown in the past two years.

In early January the Governor also announced a major initiative (called the "Strategic Growth Plan") to invest over $220 billion over the coming decade in infrastructure improvements in the state.

The Strategic Growth Plan would utilize some $68 billion in new state general obligation bonds, as well as additional revenue bonds, federal and local funds and private investment. See "CURRENT STATE BUDGET – Strategic Growth Initiative." A corollary to the Strategic Growth Plan is a proposed Constitutional amendment to place a cap on general obligation bond and lease revenue bond spending so that debt service costs will not exceed 6% of General Fund revenues. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Proposed Constitutional Amendment to Limit Debt Service Costs."

On February 24, 2006, the Governor declared a State of Emergency to permit immediate work on repair of levees and waterways in the Sacramento-San Joaquin Flood Control System. These emergency repairs are expected to cost in the range of $200 million, some or all of which may be reimbursed by the federal government or from bond funds. See "CURRENT STATE BUDGET – Fiscal Year 2005-06 revised estimates in 2006-07 Governor's Budget."

Information on certain recent reports issued by the Legislative Analyst's Office is contained in the captions "STATE FINANCES – Pension Trusts – Post Retirement Benefits" and "CURRENT STATE BUDGET – LAO Assessments of the 2005 Budget Act and the 2006-07 Governor's Budget – February Report."

Information regarding a delay in the release of the Audited Basic Financial Statements of the State for the Fiscal Year ended June 30, 2005 is contained in the caption "FINANCIAL STATEMENTS."

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of debt obligations of the state and its various authorities and agencies. The state has always paid the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-purchase obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

Capital Facilities Financing

General Obligation Bonds

The State Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See "STATE FINANCES—State Expenditures." Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds.

As of March 1, 2006, the state had outstanding $47,786,862,000 aggregate principal amount of long-term general obligation bonds, of which $35,608,742,000 were payable primarily from the state's General Fund, and $12,178,120,000 were payable from other revenue sources. See "Economic Recovery Bonds" below. As of March 1, 2006, there were unused voter authorizations for the future issuance of $33,195,211,000 of long-term general obligation bonds. This latter figure consists of $18,142,441,000 of general obligation bonds which are authorized by state finance committees to be issued initially as commercial paper notes, described below, and $15,052,770,000 of other authorized but unissued general obligation bonds. Of this unissued amount, $4,757,105,000 is for bonds payable from other revenue sources (of which $115,570,000 is authorized for commercial paper notes). See the table "Authorized and Outstanding General Obligation Bonds" under "STATE DEBT TABLES."

General obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. The state had outstanding $7,349,565,000 variable rate general obligation bonds (which includes the economic recovery bonds), representing about 15.4 percent of the state's total outstanding general obligation bonds as of March 1, 2006.

The Legislature has approved approximately $600 million of new bond authorization, for library construction, to be placed on the June 2006 primary election ballot. A $9.95 billion bond measure for high speed rail projects has been placed on the November 2006 general election ballot but legislation is pending to defer this measure until at least 2008 or remove it from the ballot entirely. Additional bond proposals may also be added to the 2006 general election ballot. The Governor has proposed a $68 billion general obligation bond program over 10 years, which is presently being considered by the Legislature. See "CURRENT STATE BUDGET – Strategic Growth Plan"

Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond issues, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. The state issues long-term general obligation bonds from time to time to retire its general obligation commercial paper notes. Commercial paper notes are deemed outstanding upon authorization by the respective finance committees, whether or not such notes are actually issued. Pursuant to the terms of the bank credit agreement presently in effect, the general obligation commercial paper program may have up to $1.5 billion in aggregate principal and interest commitments at any time. This amount may be increased or decreased in the future. As of March 1, 2006, the finance committees had authorized the issuance of up to $18,142,441,000 of commercial paper notes and, as of that date, $980,550,000 aggregate principal amount of general obligation commercial paper notes were issued. See "STATE DEBT TABLES" for information on the current outstanding amount of commercial paper notes.

Lease-Purchase Obligations

In addition to general obligation bonds, the state builds and acquires capital facilities through the use of lease-purchase borrowing. Under these arrangements, the State Public Works Board, another state or local agency or a joint powers authority issues bonds to pay for the construction of facilities such as office buildings, university buildings or correctional institutions. These facilities are leased to a state agency or the University of California under a long-term lease that provides the source of payment of the debt service on the lease-purchase bonds. In some cases, there is not a separate bond issue, but a trustee directly creates certificates of participation in the state's lease obligation, which are then marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the State Constitutional provisions that require voter approval. For purposes of this Appendix A and the tables under "STATE DEBT TABLES," "lease-purchase obligation" or "lease-purchase financing" means principally bonds or certificates of participation for capital facilities where the rental payments providing the security are a direct or indirect charge against the General Fund and also includes revenue bonds for a state energy efficiency program secured by payments made by various state agencies under energy service contracts. Certain of the lease-purchase financings are supported by special funds rather than the General Fund. See "STATE FINANCES—Sources of Tax Revenue—Special Fund Revenues." The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets. The state had $7,736,955,075 General Fund-supported lease-purchase obligations outstanding as of March 1, 2006. The State Public Works Board, which is authorized to sell lease revenue bonds, had $2,999,309,617 authorized and unissued as of March 1, 2006. In addition, as of that date, certain joint powers authorities were authorized to issue approximately $81,000,000 of revenue bonds to be secured by state leases.

Non-Recourse Debt

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. State agencies and authorities had $49,761,867,260 aggregate principal amount of revenue bonds and notes which are non–recourse to the General Fund outstanding as of December 31 , 2005, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES."

Detailed information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Proposed Constitutional Amendment to Limit Debt Service Costs

The Governor has proposed a Constitutional Amendment, currently drafted as Senate Constitutional Amendment 21 ("SCA 21"), which would place a limit on future issuance of certain "general fund-supported debt." Under SCA 21, the annual Governor's Budget would be required to contain an estimate of the principal and interest costs ("debt service") for current and proposed general fund supported debt for five years in the future, and an estimate of General Fund revenues for the same years.

SCA 21 would then require that the Budget Act for each year could not include appropriations from the sale of new general fund-supported debt in that year, if the debt service costs on that new debt, combined with the debt service costs of bonds already outstanding or for which appropriations have been encumbered, would cause total debt service on general fund-supported debt to exceed 6% of estimated General Fund revenues. The estimates of debt service costs and of General Fund revenues are each to be made in the aggregate for the then-current fiscal year and the four ensuing fiscal years. SCA 21 would permit the Legislature to override any existing continuing appropriation of bond funds which have not yet been encumbered so that this limitation could be achieved.

"General fund-supported debt" would be defined to include (a) voter approved state general obligation bonds, and (b) obligations payable from General Fund appropriations for lease payments in support of lease revenue bonds. The following would be expressly excluded from the definition of "general fund-supported debt:" (y) voter approved debt for transportation purposes supported by taxes on motor vehicle fuels (no such debt is presently outstanding but future bonds of this nature are included in the Governor's Strategic Growth Plan), and (z) general obligation bonds payable from a source other than the General Fund, or where the General Fund is reimbursed for debt service costs. These latter bonds are called "self-liquidating" general obligation bonds and would also include the Economic Recovery Bonds issued to refinance pre-2004 budget deficits.

SCA 21 would expressly provide that it shall not be construed to impair the ability of the state to meet any obligations with respect to repayment or security of any existing or future general fund-supported debt, or affect the validity of any bonds or other obligations of the state.

It is not known if this proposal, or any variation of it, will be placed on any future ballot for voter approval.

Pension Obligation Bonds

Pursuant to the California Pension Restructuring Bond Act of 2004, Government Code Section 16940, et seq. (the "Restructuring Bond Act"), the state proposes to issue $560 million of pension obligation bonds, yielding a projected net benefit to the General Fund of $525 million, to make future contributions to the California Public Employees' Retirement System ("CalPERS"). The payment of the debt service on the pension obligation bonds will be payable from the General Fund. As with previous proposed pension bond issuances (as described below), the proposed pension obligation bonds is the subject of a validation action brought by the Pension Obligation Bond Committee for and on behalf of the state.

Pursuant to the Restructuring Bond Act, the Committee authorized the issuance of bonds to pay a portion of the state's pension obligation for fiscal year 2004-05 or a subsequent fiscal year. The Committee initiated a validation action seeking court determination that the bonds would not be in violation of the Constitutional debt limit because the proceeds of the bonds would be used to pay the state's employer contribution obligation to CalPERS, which is an "obligation imposed by law." The validation action was challenged in the court by the Pacific Legal Foundation, and this legal challenge prevented the issuance of the pension obligation bonds in time to pay the pension contribution during fiscal year 2004-05. After a trial in the Sacramento County Superior Court, the judge ruled on November 15, 2005 that the bonds were not valid. The Committee has filed a notice of appeal. The Administration has not included any pension obligation bonds in its proposed 2006-07 Budget, but if the litigation is successful such bonds may be issued in the future. See "LITIGATION – Matter Seeking Validation of Pension Obligation Bonds."

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters at the statewide primary election on March 2, 2004. Proposition 57 authorizes the issuance of up to $15 billion in economic recovery bonds to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the economic recovery bonds is secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax starting July 1, 2004. In addition, as voter-approved general obligation bonds, the economic recovery bonds are secured by the state's full faith and credit. However, moneys in the General Fund will only be used in the event the dedicated sales and use tax revenue is insufficient to repay the bonds.

The state has issued $10.896 billion principal amount of economic recovery bonds, resulting in the deposit of net proceeds to the General Fund of approximately $11.254 billion during the 2003–04 fiscal year (of which, for budgetary purposes, approximately $9.242 billion was applied to the 2002–03 fiscal year and approximately $2.012 billion was applied to offset fiscal year 2004–05 General Fund expenditures). The state may issue the remainder of authorized economic recovery bonds at any time in the future, but the 2006-07 Governor's Budget assumes no economic recovery bonds will be issued in fiscal year 2005-06 or 2006-07. See "CURRENT STATE BUDGET—2005 Budget Act."

Three different sources of funds are required to be applied to the early retirement (generally by purchase or redemption) of economic recovery bonds: (i) all proceeds from this quarter cent sales tax in excess of the amounts needed, on a semi-annual basis, to pay debt service and other required costs of the bonds, (ii) all proceeds from the sale of surplus state property, and (iii) fifty percent of each annual deposit, up to $5 billion in the aggregate, of future deposits in the reserve fund created by the California Balanced Budget Act (see "THE BUDGET PROCESS – Constraints on the Budget Process –Proposition 58" below). Funds from sources (i) and (ii) above were used for early retirement of approximately $369 million of bonds during the fourth quarter of 2005. An additional $249 million of bonds were retired using excess sales tax proceeds in early 2006. The 2006-07 Governor's Budget assumes $460 million will be transferred from the reserve created under Proposition 58 in September 2006, pursuant to the California Balanced Budget Act. These moneys will be used to retire bonds prior to December 31, 2006.

Tobacco Settlement Revenue Bonds

In 1998 the state signed a settlement agreement with the four major cigarette manufacturers. Under the settlement agreement, the cigarette manufacturers agreed to make payments to the state in perpetuity, which payments amount to approximately $25 billion (subject to adjustments) over the first 25 years. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers will be paid to the state and half to local governments (all counties and the cities of San Diego, Los Angeles, San Francisco and San Jose). The specific amount to be received by the state and local governments is subject to adjustment. Details in the settlement agreement allow reduction of the manufacturers' payments for decreases in cigarette shipment volumes by the settling manufacturers, payments owed to certain "Previously Settled States" and certain types of offsets for disputed payments, among other things. However, settlement payments are adjusted upward each year by at least 3 percent for inflation, compounded annually.

Chapter 414, Statutes of 2002, enacted Government Code Sections 63049 to 63049.5 (the "Tobacco Securitization Law"), which authorized the establishment of a special purpose trust to purchase those assets. The bill also authorized that entity to issue revenue bonds secured by the tobacco settlement revenues received beginning in the 2003–04 fiscal year. An initial sale of 56.57 percent of the state's tobacco settlement revenues producing $2.485 billion in proceeds was completed in January 2003.

A second sale of the remaining 43.43 percent of the state's tobacco settlement revenues, which produced $2.264 billion in proceeds, was completed in September 2003 (Series 2003B). Chapter 225, Statutes of 2003, amended the Tobacco Securitization Law to require the Governor to request an appropriation in the annual Budget Act to pay debt service and other related costs of the tobacco settlement revenue bonds secured by the second (and only the second) sale of tobacco settlement revenues when such tobacco settlement revenues are insufficient therefor. The Legislature is not obligated to make any such requested appropriation. In August, 2005, the Series 2003B Bonds were refinanced, retaining substantially all of the covenants of the original issue, including the covenant regarding the request for a General Fund appropriation in the event tobacco revenues fall short. In return for providing this covenant, the state was paid a credit enhancement fee of $525 million as part of the refinancing. See "CURRENT STATE BUDGET – 2005 Budget Act—Financial Instruments."

Tobacco settlement revenue bonds are neither general nor legal obligations of the state or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the state or of any political subdivision is or shall be pledged to the payment of any such bonds.

Cash Flow Borrowings

As part of its cash management program, the state has regularly issued short-term obligations to meet cash flow needs. The state has issued revenue anticipation notes ("Notes" or "RANs") in 19 of the last 20 fiscal years to partially fund timing differences between receipts and disbursements, as the majority of General Fund revenues are received in the last part of the fiscal year. By law, RANs must mature prior to the end of the fiscal year of issuance. If additional external cash flow borrowings are required, the state has issued revenue anticipation warrants ("RAWs"), which can mature in a subsequent fiscal year. See "STATE FINANCES—State Warrants." RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the state on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" are payments as and when due to: (i) support the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the Constitution of the State), (ii) pay principal of and interest on general obligation bonds and general obligation commercial paper notes of the state, (iii) provide reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (iv) pay state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, and any amounts determined by a court of competent jurisdiction to be required to be paid with state warrants that can be cashed immediately. See "STATE FINANCES" below.

The following table shows the amount of RANs and RAWs issued in the past five fiscal years and the current year.

TABLE 1

State of California Revenue Anticipation Notes and Warrants Issued
Fiscal Years 2001-02 to 2005–06

Fiscal Year	Type	Principal Amount (Billions)	Date of Issue	Maturity Date
2001–02	Notes Series A-C	$5.70	October 4, 2001	June 28, 2002
	RAWs Series A	1.50	June 24, 2002	October 25, 2002
	RAWs Series B	3.00	June 24, 2002	November 27, 2002
	RAWs Series C	3.00	June 24, 2002	January 30, 2003†
2002–03	Notes Series A and C	6.00	October 16, 2002	June 20, 2003
	Notes Series B and D	3.00	October 16, 2002	June 27, 2003
	Notes Series E – G	3.50	November 6, 2002	June 20, 2003
	RAWs Series A and B	10.965	June 18, 2003	June 16, 2004
2003–04	Notes	3.00	October 28, 2003	June 23, 2004
2004–05	Notes Series A – D	6.00	October 6, 2004	June 30, 2005
2005-06	Notes	3.00	November 10, 2005	June 30, 2006

† Called by the State Controller and paid on November 27, 2002.

Source: State of California, Office of the State Treasurer.

STATE FINANCES

The General Fund

The moneys of the state are segregated into the General Fund and over 900 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the state. For additional financial data relating to the General Fund, see the financial statements incorporated in or attached to this APPENDIX A. See "FINANCIAL STATEMENTS." The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

The Special Fund for Economic Uncertainties

The Special Fund for Economic Uncertainties ("SFEU") is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer amounts in the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred without payment of interest as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

The legislation creating the SFEU (Government Code Section 16418) contains a continuous appropriation from the General Fund authorizing the State Controller to transfer to the SFEU, as of the end of each fiscal year, the lesser of (i) the unencumbered balance in the General Fund and (ii) the difference between the state's "appropriations subject to limitation" for the fiscal year then ended and its "appropriations limit" as defined in Section 8 of Article XIII B of the State Constitution and established in the Budget Act for that fiscal year, as jointly estimated by the Legislative Analyst's Office and the Department of Finance. For a further description of Article XIII B, see "State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes. Under newly enacted Proposition 58, the state will also have a second budgetary reserve, called the Budget Stabilization Account. See "THE BUDGET PROCESS – Constraints on the Budget Process – Proposition 58 (Balanced Budget Amendments)."

See Table 2 and Table 16 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors, including re-estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may impact the fiscal year-end balance in the SFEU.

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the Pooled Money Investment Board (the "PMIB," comprised of the State Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds. When moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed ten percent of the total additions to such special fund as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary (Legal Basis) annual report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the Pooled Money Investment Account.

As of March 31, 2006, there were $2.3 billion of outstanding loans from the SFEU and other internal sources to the General Fund. See "STATE FINANCES—State Warrants" and EXHIBIT 2 – "STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1 THROUGH MARCH 31, 2006 (UNAUDITED)."

Any determination of whether a proposed borrowing from one of the special funds is permissible must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The State Attorney General has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education and the payment of debt service on general obligation bonds of the state.

At the November 1998 election, voters approved Proposition 2. This proposition requires the General Fund to repay loans made from certain transportation special accounts (such as the State Highway Account) at least once per fiscal year, or up to 30 days after adoption of the annual Budget Act. Since the General Fund may reborrow from the transportation accounts any time after the annual repayment is made, the proposition does not have any adverse impact on the state's cash flow.

In addition to temporary inter-fund borrowings described in this section, budgets enacted in the current and past fiscal years have included other transfers and long-term loans from special funds to the General Fund. In some cases, such loans and transfers have the effect of reducing internal borrowable resources.

The following chart shows internal borrowable resources available for temporary loans to the General Fund on June 30 of each of the fiscal years 2002-03 through 2004–05 and estimates, as of January 10, 2006, for fiscal years 2005–06 and 2006-07. See also EXHIBIT 1 – "STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2004 THROUGH JUNE 30, 2005 (UNAUDITED)."

TABLE 2

Internal Borrowable Resources
(Cash Basis)
(Millions)

	2003[a]	2004[b]	2005	2006[c]	2007[c]
Available Internal Borrowable Resources	$10,401.5	$9,951.3	$10,005.3	$11,152.8	$10,747.2
Outstanding Loans					
From Special Fund for Economic Uncertainties and Budget Stabilization Account	-0-	-0-	-0-	-0-	613.1
From Special Funds and Accounts	-0-	-0-	-0-	-0-	2,963.8
Total Outstanding Internal Loans	-0-	-0-	-0-	-0-	3,576.9
Unused Internal Borrowable Resources	$10,401.5	$9,951.3	$10,005.3	$11,152.8	$7,170.3

(a) At June 30, 2003, the state also had $10.965 billion of outstanding external borrowings in the form of revenue anticipation warrants.

(b) Includes the receipt of $11.254 billion of economic recovery bond proceeds to the General Fund resulting from the issuance of three series of economic recovery bonds.

(c) Department of Finance estimates as of January 10, 2006.

Source: State of California, Department of Finance. Information for the fiscal years ended June 30, 2003 through June 30, 2005, are actual figures.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. State law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Cash Flow Borrowings." Unapplied Money may include moneys transferred to the General Fund from the SFEU and internal borrowings from state special funds (to the extent permitted by law). See "STATE FINANCES—The Special Fund for Economic Uncertainties" and "—Inter-Fund Borrowings."

Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be set apart for obligations having priority over obligations to which such warrant is applicable, the warrant must be registered by the State Treasurer on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller then delivers such a "registered warrant" to persons or entities (e.g., suppliers and local governments) otherwise entitled to receive payments from the state. A registered warrant bears interest at a rate designated by the PMIB up to a maximum of five percent per annum or at a higher rate if issued for an unpaid revenue anticipation note or in connection with some form of credit enhancement. Registered warrants may or may not have a fixed maturity date. Registered warrants that have no fixed maturity date, and registered warrants that bear a maturity date but, for lack of Unapplied Moneys, were not paid at maturity, are paid, together with all interest due, when the State Controller, with the approval of the PMIB, determines payment will be made. The State Controller then notifies the State Treasurer, who publishes a notice that the registered warrants in question are payable. The duties of the State Controller and the PMIB are ministerial in nature, and the State Controller and the PMIB may not legally refuse to pay the principal of or interest on any registered warrants on any date Unapplied Moneys are available in the General Fund after all Priority Payments have been made on that date.

Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state special funds to meet payments authorized by law. The State Controller may then issue "reimbursement warrants" in the financial market at competitive bid to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants may have a fixed maturity date.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding warrants (see "—Refunding Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state issued reimbursement warrants on several occasions in order to meet its cash needs during the period 1992-1994, when state revenues were severely reduced because of an economic recession. Facing renewed economic pressures, the State issued reimbursement warrants in June 2002 and in June 2003. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Cash Flow Borrowings."

Refunding Warrants

If there is not sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to offer and sell a new issue of reimbursement warrants as refunding warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding warrants have the same legal status and provisions as reimbursement warrants, as described above.

Sources of Tax Revenue

The 2006-07 Governor's Budget estimates that General Fund tax revenues will increase by 6.7 percent in fiscal year 2005-06 and by 4.9 percent in fiscal year 2006-07. Further information on state revenues is contained under "CURRENT STATE BUDGET" and "STATE FINANCES—Recent Tax Receipts." See Table 4 entitled "Comparative Yield of State Taxes—All Funds, 2001–02 Through 2006–07" for a comparison, by amount received, of the sources of the state's tax revenue.

Chapter 226, Statutes of 2004, created a personal income tax, corporate tax, and sales and use tax amnesty program for 2002 and prior tax years. Penalties were waived for taxpayers who applied for amnesty during the amnesty period of February 1, 2005 to March 31, 2005. Although taxpayers had to apply within this time frame, taxpayers had until the end of May 2005 to submit their tax returns and pay amounts owed. At the conclusion of amnesty, taxpayers who could have applied for amnesty but did not are subject to higher penalties if found to owe additional amounts for amnesty years. The amnesty program is estimated to result in a net multi-year General Fund revenue gain of $380 million.

The 2006-07 Governor's Budget includes several revenue proposals. See "CURRENT STATE BUDGET – Proposed Fiscal Year 2006-07 Budget".

Personal Income Tax

The California personal income tax, which accounts for a significant portion of General Fund tax revenues, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1.0 percent to 9.3 percent. The personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 38.7 percent of the total personal income tax in tax year 2003.

Proposition 63, approved by the voters in the November 2004 election, imposes a 1 percent surcharge on taxpayers with taxable income over $1 million. The proceeds of the tax surcharge are required to be used to expand county mental health programs.

Taxes on capital gains realizations and stock options, which are largely linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. Capital gains and stock option tax receipts have accounted for as much as 24.7 percent and as little as 7.3 percent of General Fund revenues in the last ten years. The 2006-07 Governor's Budget estimates that capital gains and stock option tax receipts will account for 12.9 percent of General Fund revenue in 2005-06 and 13.1 percent of General Fund revenue in 2006-07. See "CURRENT STATE BUDGET—Economic Assumptions."

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

As of January 1, 2006, the breakdown of the base state and local sales tax rate of 7.25 percent is as follows:

- 5 percent imposed as a state General Fund tax;
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);
- 1 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's economic recovery bonds (the "Special Sales Tax").

Existing law provides that 0.25 percent of the basic 5 percent state tax rate may be suspended in any calendar year upon certification by the Director of Finance by November 1 in any year in which both of the following occur: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent sales and use tax rate) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent sales and use tax rate) and (2) actual revenues for the period May 1 through September 30 equal or exceed the May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level will be insufficient to trigger a reduction for calendar year 2007. See "CURRENT STATE BUDGET—Summary of State Revenues and Expenditures" for a projection of the fiscal year 2006-07 General Fund reserve.

Existing law provides that the Special Sales Tax will be collected until the first day of the calendar quarter at least 90 days after the Director of Finance certifies that all economic recovery bonds and related obligations have been paid or retired or provision for their repayment has been made or enough sales taxes have been collected to pay all economic recovery bonds and related obligations to final maturity. At such time the Special Sales Tax will terminate and the city and county portion of taxes under the Uniform Local Sales and Use Tax will be automatically increased by 0.25 percent.

Senate Constitutional Amendment No. 4, approved by the voters as Proposition 1A in the November 2004 election, amended the state Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by restricting the state from lowering the local sales tax rate or changing the allocation of local sales tax revenues without meeting certain conditions. See "STATE FINANCES—Local Governments."

Corporation Tax

Corporation tax revenues are derived from the following taxes:

1. The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

2. Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

3. The AMT is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

4. A minimum franchise tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first two years of incorporation.

5. Sub-Chapter S corporations are taxed at 1.5 percent of profits.

On February 23, 2004, the U.S. Supreme Court denied the Franchise Tax Board's appeal requesting review of the decision in *Farmer Brothers Company v. Franchise Tax Board*, a tax refund case which involved the deductibility of corporate dividends. Potential revenue losses are estimated to total $400 million over several fiscal years through 2007–08 (some revenue gains are expected in fiscal years after that). These revenue losses are included in state budget projections for fiscal years 2005-06 and 2006-07.

Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and nonadmitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits.

Estate Tax; Other Taxes

The California estate tax is based on the state death tax credit allowed against the federal estate tax. The California estate tax is designed to pick up the maximum credit allowed against the federal estate tax return. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (the "Economic Growth and Tax Relief Reconciliation Act") phases out the federal estate tax by 2010. As a consequence, the Economic Growth and Tax Relief Reconciliation Act resulted in the reduction of the state estate tax revenues by 25 percent in calendar year 2002, 50 percent in calendar year 2003, and 75 percent in calendar year 2004, and the elimination of the state estate tax beginning in calendar year 2005. The provisions of this federal act sunset after 2010. At that time, the federal estate tax will be reinstated along with the state's estate tax, unless future federal legislation is enacted to make the provisions permanent. See Table 4 entitled "Comparative Yield of State Taxes—All Funds, 2001-02 Through 2006-07."

Other General Fund major taxes and licenses include: Inheritance and Gift Taxes; Cigarette Taxes; Alcoholic Beverage Taxes; Horse Racing License Fees and Trailer Coach License Fees.

Special Fund Revenues

The California Constitution and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.

- Charges for special services to specific functions, including such items as business and professional license fees.

- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle related taxes and fees accounted for about 37 percent of all special fund revenues in fiscal year 2004-05. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. During fiscal year 2004-05, $8.2 billion was derived from the ownership or operation of motor vehicles. About $3.3 billion of this revenue was returned to local governments. The remainder was available for various state programs related to transportation and services to vehicle owners. For a discussion of Proposition 1A, approved by the voters in November 2004, which replaced vehicle license fees with increased property tax revenues, see “STATE FINANCES—Local Governments—Vehicle License Fee.”

Taxes on Tobacco Products

As a result of Proposition 99, approved by the voters in 1988, and Proposition 10, approved by the voters in 1998, the state imposes an excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products. Tobacco product excise tax revenues are earmarked as follows:

1. Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non–cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.

2. Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

3. Ten cents of the per-pack tax is allocated to the state’s General Fund.

4. The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per $100 of personal income for the past four years, the current year, and the budget year.

TABLE 3

Recent Tax Receipts

	Trend of State Taxes per Capita[a]		Taxes per $100 of Personal Income	
Fiscal Year	**General Fund**	**Total**	**General Fund**	**Total**
2001–02	1,801.21	2,105.46	5.52	6.45
2002–03	1,833.10	2,133.14	5.65	6.58
2003–04	1,951.35	2,268.10	5.93	6.89
2004–05[p]..................	2,193.35	2,568.47	6.34	7.43
2005–06[b]..................	2,297.01	2,691.53	6.35	7.45
2006–07[b]..................	2,394.67	2,798.49	6.35	7.42

(a) Data reflect population figures based on the 2000 Census.

(p) Preliminary.

(b) Estimated.

Source: State of California, Department of Finance.

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The following table gives the actual and estimated revenues by major source for the last four years, the current year, and the budget year. This table shows taxes that provide revenue both to the General Fund and state special funds.

TABLE 4

Comparative Yield of State Taxes — All Funds 2001–02 Through 2006–07 (Modified Accrual Basis) (Thousands)

Year Ending June 30	Sales and Use[a]	Personal Income	Corporation	Tobacco	Inheritance, Estate and Gift[b]	Insurance	Alcoholic Beverages	Horse Racing	Motor Vehicle Fuel[c]	Motor Vehicle Fees[d]
2002	26,004,521[f]	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	42,247	3,295,903	3,836,795
2003	27,177,756[f]	32,713,830	6,803,583	1,055,505	647,372	1,879,784	290,564	40,509	3,202,512	3,965,410
2004	28,948,622[f]	36,398,983	7,019,216	1,081,588	397,848	2,114,980	312,826	42,143	3,324,883	4,415,126
2005	32,638,090[f]	42,912,860	8,670,065	1,085,721	213,035	2,232,954	314,251	38,491	3,366,142	4,882,664
2006[e]	31,648,464[g]	46,176,000[h]	9,621,000	1,065,100	0	2,246,000	315,000	38,985	3,397,987	5,090,728
2007[e]	33,014,278[g]	49,406,000[h]	10,024,000	1,096,115	0	2,340,000	316,000	38,985	3,482,636	5,265,113

(a) Numbers include local tax revenue from the 0.5 percent rate increase dedicated to local governments for the state-local health and welfare program realignment program. The 0.5 percent rate is equivalent to about $2.4 billion to $2.7 billion per year. The figures also reflect a statutory 0.25 percent reduction that occurred only during calendar year 2001.

(b) The state estate tax is based on the state death tax credit allowed against the federal estate tax. As a result, the federal Economic Growth and Tax Relief Reconciliation Act progressively reduced the state estate tax in calendar years 2002 through 2004 and eliminates it beginning in calendar year 2005.

(c) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(d) Registration and weight fees, motor vehicle license fees and other fees. Represents a reduction of vehicle license fee rate on July 1, 2001 from 1.3 percent of vehicle depreciable value to 0.65 percent. Effective July 1, 2005, the rate was reset at 0.65 percent.

(e) Estimated as of January 10, 2006.

(f) The figures do not include voter approved local revenue, local city and county operations revenue (Bradley-Burns), or the 0.25 percent county transportation funds revenue. Figures do include the 0.5 percent Local Public Safety Fund revenue.

(g) Unlike the figures for fiscal years ending June 30, 2002 through June 30, 2005, these estimated figures do not include the 0.5 percent Local Public Safety Fund revenue. These estimated figures also do not include voter approved local revenue, local city and county operations revenue (Bradley-Burns), or the 0.25 percent county transportation funds revenue. Estimate for fiscal year 2005–06 includes $1.378 billion and for fiscal year 2006–07 includes $1.415 billion for a temporary one-quarter cent tax increase to be deposited in the Fiscal Recovery Fund and used for repayment of the economic recovery bonds. See "Sources of Tax Revenue—Sales Tax."

(h) Includes the revenue estimate for a 1 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

NOTE: This table shows taxes that provide revenue both to the General Fund and state special funds. Also, some revenue sources are dedicated to local governments. This accounts for differences between the information in this table and Table 17.

Source: Fiscal years 2001–02 through 2004–05: State of California, Office of the State Controller.
Fiscal years 2005–06 and 2006–07: State of California, Department of Finance.

State Expenditures

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs.

TABLE 5

Governmental Cost Funds
(Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2000–01 to 2004–05
(Thousands)

	2000–01	2001–02	2002–03	2003–04	2004–05
Function					
Legislative, Judicial, Executive					
Legislative	$ 262,370	$ 265,312	$ 276,462	$ 284,894	$ 408,426
Judicial[a]	1,478,710	1,633,518	2,524,446	2,634,409	2,881,680
Executive	1,352,128	1,371,891	1,283,297	1,329,557	1,362,268
State and Consumer Services	950,192	1,100,942	955,054	946,584	1,025,817
Business, Transportation and Housing					
Business and Housing	601,053	240,237	184,573	235,742	196,209
Transportation	4,417,139	6,052,926	3,712,133	6,077,810	6,819,308
Technology, Trade and Commerce[b]	140,833	81,832	50,335	10,262	0
Resources	3,349,003	2,284,269	1,993,957	2,100,200	2,232,498
Environmental Protection	869,539	993,144	762,052	749,988	788,805
Health and Human Services	24,204,531	26,563,743	27,420,865	26,793,410	30,223,891
Correctional Programs	4,952,927	5,242,369	5,614,849	5,246,381	6,769,319
Education					
Education–K through 12	28,720,596	28,078,228	27,611,356	28,696,655	32,118,886
Higher Education	9,655,954	9,945,193	9,951,749	9,487,413	9,985,180
Labor and Workforce Development[c]	N/A	N/A	250,616	239,051	319,984
General Government					
General Administration	1,294,587	2,475,564	1,830,280	3,580,718	1,745,492
Debt Service	2,270,649	2,432,942	2,067,815	2,103,756	3,390,653
Tax Relief	4,655,826	3,028,703	4,446,940	3,782,731	665,597
Shared Revenues	4,385,429	5,528,996	2,784,970	2,664,766	1,691,964
Brown vs. US Dept. of Health and Human Services	–	96,000	–	–	–
Other Statewide Expenditures	635,475	476,170	526,863	825,833	(1,128,219)
Expenditure Adjustment for Encumbrances[d]	(1,943,208)	(681,856)	2,365,728	363,473	(1,038,273)
Credits for Overhead Services by General Fund	(197,343)	(251,575)	(288,871)	(326,928)	(329,796)
Statewide Indirect Cost Recoveries	(36,610)	(47,862)	(50,313)	(59,081)	(74,581)
Total	$92,019,780	$96,910,686	$96,275,156	$97,767,624	$100,055,108
Character					
State Operations	$24,850,286	$27,994,343	$26,241,065	$28,208,541	$28,783,825
Local Assistance	66,087,018	67,993,721	69,043,191	68,086,507	70,217,159
Capital Outlay	1,082,476	922,622	990,900	1,472,576	1,054,124
Total	$92,019,780	$96,910,686	$96,275,156	$97,767,624	$100,055,108

(a) Included in this amount are the expenditures of the Trial Court Trust Fund. As of July 1, 2002, the Trial Court Trust Fund was reclassified to a Governmental Cost Fund from a Non-Governmental Cost Fund.

(b) As of January 2004, Technology, Trade and Commerce was abolished per Assembly Bill 1757 of 2003, Chapter 229. Funds that were abolished were transferred to the General Fund.

(c) Legislation was enacted effective January 1, 2003 which created a new agency function called the Labor and Workforce Development. Fiscal year 2002–03 figure reflects the expenditure for the entire fiscal year. The following agencies were transferred from General Government to this new function: the Employment Development Department, the California Workforce Investment Board, the Agricultural Labor Relations Board, and the Department of Industrial Relations.

(d) Expenditures for the State Highway Account (Fund 0042) and the Traffic Congestion Relief Fund (Fund 3007) are reported on a modified cash basis. This method of accounting eliminated all of the continuing appropriations in these two funds.

N/A – Not applicable

Source: State of California, Office of the State Controller.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the state from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K 14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K 14 districts and refunds to taxpayers.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2002-03 through 2006-07.

As of the release of the 2006-07 Governor's Budget, the Department of Finance projects the Appropriations Subject to Limit to be $15.242 billion and $15.893 billion under the Appropriations Limit in fiscal years 2005-06 and 2006-07, respectively.

TABLE 6

State Appropriations Limit
(Millions)

	Fiscal Years				
	2002–03	**2003–04**	**2004–05**	**2005–06**	**2006-07**
State Appropriations Limit	$59,591	$61,702	$64,588	$68,890	$72,128
Appropriations Subject to Limit	(45,832)	(47,921)	(53,506)	(53,648)*	(56,235)*
Amount (Over)/Under Limit	$13,759	$13,781	$11,082	$15,242*	$15,893*

* Estimated/Projected.

Source: State of California, Department of Finance.

Proposition 98

On November 8, 1988, the voters of the state approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed state funding of public education below the university level and the operation of the State Appropriations Limit, primarily by guaranteeing K-14 education a minimum level of funding. Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 education the greater of: (a) in general, a fixed percentage of General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 education in the prior year, adjusted for changes in state per capita personal income and enrollment ("Test 2"), or (c) a third test, which replaces Test 1 and Test 2 in any year that the percentage growth in per capita General Fund revenues from the prior year plus one half of one percent is less than the percentage growth in state per capita personal income ("Test 3").

Legislation adopted prior to the end of the 1988–89 fiscal year implementing Proposition 98 determined the K-14 education's funding guarantee under Test 1 to be 40.7 percent of General Fund tax revenues, based on 1986-87 appropriations. However, this percentage has since been adjusted to approximately 41.0 percent of 1986-87 appropriations to account for subsequent changes in the allocation of local property taxes, since these changes altered the share of General Fund revenues received by schools. The Proposition 98 guarantee has typically been calculated under Test 2. Under Test 3, however, schools receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita General Fund revenues, plus 0.5 percent. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" (called the "maintenance factor") to schools and is paid to them in future years when per capita General Fund revenue growth exceeds per capita personal income growth.

The Proposition 98 guarantee is funded from two sources: local property taxes and the General Fund. Any amount not funded by local property taxes is funded by the General Fund. Thus, local property tax collections represent an offset to General Fund costs in a Test 2 or Test 3 year.

Proposition 98 also contains provisions for the transfer of certain state tax revenues in excess of the Article XIII B limit to K-14 education in Test 1 years when additional moneys are available. No such transfers are anticipated during fiscal year 2006-07. See "STATE FINANCES—State Appropriations Limit."

The proposed 2006-07 Governor's Budget reflects General Fund Proposition 98 expenditures in fiscal years 2004-05 through 2006-07, as outlined in the table below. The 2006-07 Governor's Budget includes full funding for statutory growth (0.21 percent) and COLA (5.18 percent) adjustments in 2006-

07, and also reflects the deferral of Proposition 98 expenditures of $1.283 billion from fiscal year 2004-05 to 2005-06, $1.303 billion from fiscal year 2005-06 to 2006-07, and $1.303 billion from fiscal year 2006-07 to 2007-08.

TABLE 7

Proposition 98 Funding
($ in Millions)

	2004-05		2005-06		2006-07	Change From Revised 2005-06	
	Enacted	**Revised**	**Enacted**	**Revised**	**Proposed**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$30,873	$30,863	$33,071	$32,792	$36,403	$3,611	11.01%
Local property tax revenue	11,214	11,265	11,573	11,845	11,963	118	0.99
Subtotals[a]	$42,087	$42,128	$44,644	$44,637	$48,366	$3,729	8.35%
Other Proposition 98							
State General Fund	$ 3,130	$ 3,132	$ 3,520	$ 3,519	$ 4,053	$ 534	15.17%
Local property tax revenue	1,772	1,756	1,804	1,830	1,899	69	3.77
Subtotals[a]	$4,902	$4,888	$5,324	$5,349	$5,952	$ 603	11.27%
Total Proposition 98							
State General Fund	$34,003	$33,995	$36,591	$36,311	$40,456	$4,145	11.42%
Local property tax revenue	12,986	13,021	13,377	13,675	13,862	187	1.37
Totals[a]	$46,989	$47,016	$49,968	$49,986	$54,318	$4,332	8.67%

(a) Totals may not add due to rounding.

Source: State of California, Department of Finance

Proposition 98 permits the Legislature, by a two-thirds vote of both houses (on a bill separate from the Budget Act), and with the Governor's concurrence, to suspend the K-14 education's minimum funding guarantee for a one-year period. The amount of the suspension is added to the maintenance factor, the repayment of which occurs according to a specified State Constitutional formula, and eventually restores Proposition 98 funding to the level that would have been required in the absence of such a suspension. Therefore, suspending the minimum funding guarantee provides ongoing General Fund savings over multiple fiscal years until the maintenance factor is fully repaid.

Legislation related to the 2004 Budget Act suspended the Proposition 98 minimum guarantee. At the time the 2004 Budget Act was enacted, this suspension was estimated to be $2.004 billion. However, subsequent growth in General Fund revenue has increased the estimated 2004–05 Proposition 98 guarantee calculation by an additional $1.673 billion, bringing the total value of the suspension to $3.677 billion. This suspended amount is added to the existing maintenance factor. After estimated and proposed payments in 2005-06 and 2006-07, the total estimated maintenance factor balance will be $1.3 billion at the end of fiscal year 2006-07. This maintenance factor balance is required to be restored to the Proposition 98 budget over future years as explained above. See "LITIGATION – Action Seeking Recalculation of Proposition 98 Minimum Funding Guarantee" for information regarding a lawsuit challenging the calculation of Proposition 98 funding for fiscal years 2004-05 and 2005-06 in light of the suspension of the Proposition 98 minimum guarantee in 2004-05.

Proposition 98 appropriations for fiscal years 1995-96, 1996-97, 2002-03, and 2003-04 are cumulatively estimated to be $1.4 billion below the amounts required by Proposition 98 for those years because of changes in various Proposition 98 factors applicable to those years. Chapter 216, Statutes of 2004, annually appropriates $150 million per year beginning in fiscal year 2006–07, to repay these prior year Proposition 98 obligations. However, Chapter 491, Statutes of 2005, appropriated $16.8 million toward these settle-up obligations during the 2005-06 fiscal year, and explicitly reduced the first Chapter 216 settle-up appropriation, from $150 million to $133.2 million for 2006-07. This appropriation has been included in the proposed Governor's Budget for 2006-07.

Local Governments

The primary units of local government in California are the counties, which range in population from 1,200 in Alpine County to approximately 10 million in Los Angeles County. Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 478 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments has been constrained since Proposition 13, which added Article XIII A to the State Constitution ("Proposition 13"), was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Proposition 218, another initiative constitutional amendment enacted in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. Counties, in particular, have had fewer options to raise revenues than many other local government entities, while they have been required to maintain many services.

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K 12 schools and community colleges. During the recession of the early 1990s, the Legislature eliminated most of the remaining components of post-Proposition 13 aid to local government entities other than K 12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties. See "STATE FINANCES—Sources of Tax Revenue—Sales Tax" for a discussion of the impact of the economic recovery bond issuances on local sales taxes.

The 2004 Budget Act, related legislation and the enactment of Senate Constitutional Amendment No. 4 (described below) dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state–local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which have previously received all VLF revenues, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive.

As part of the state-local agreement, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008–09, the state will be able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe state fiscal hardship, two–thirds of both houses of the Legislature approves the borrowing and the amount borrowed is required to be paid back within three years. The state also will not be able to borrow from local property tax revenues for more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the state cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A also prohibits the state from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005-06, if the state does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate to encompass state action that transfers to cities, counties and special districts financial responsibility for a required program for which the state previously had partial or complete responsibility. The state mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights. See "THE BUDGET PROCESS—Constraints on the Budget Process—Proposition 1A."

Vehicle License Fee

Prior to enactment of the 2004 Budget Act, vehicle license fees were assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the VLF paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25 percent of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5 percent of two percent (resulting in an effective rate of 0.65 percent). This level of offset provided tax relief of $4.3 billion in fiscal year 2003–04.

In connection with the offset of the VLF, the Legislature authorized appropriations from the state General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged. In June 2003, the Director of Finance under the Davis Administration ordered the suspension of VLF offsets due to a determination that insufficient General Fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners were restored to the 1998 level. However, the offset suspension was rescinded by Governor Schwarzenegger on November 17, 2003, and offset payments to local governments resumed. Local governments received "backfill" payments totaling $3.80 billion in fiscal year 2002–03 and $3.1 billion in fiscal year 2003–04. In addition, the state-local agreement also provided for the repayment by August 2006 of the approximately $1.2 billion that was not received by local governments from July to October of 2003, which is the time period between the suspension of the offsets and the implementation of higher fees.

Beginning in fiscal year 2004–05, the state-local agreement permanently reduced the VLF rate to 0.65 percent, and eliminated the General Fund offset program. The State Constitution, amended by the voter approval of Proposition 1A in the November 2004 election, codifies the obligation of the state to provide replacement revenues to local governments for revenues lost as a result of the decrease in VLF rate below the current level of 0.65 percent of the market value of the vehicle.

The 2005 Budget Act provided for the early repayment, in fiscal year 2005-06, of the whole $1.2 billion in VLF backfill payments owed to local governments. This payment took place in August 2005. See "CURRENT STATE BUDGET – 2005–06 Budget Act."

Trial Courts

Prior to legislation enacted in 1997, local governments provided the majority of funding for the state's trial court system. The legislation consolidated the trial court funding at the state level in order to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. The state's trial court system will receive approximately $2.4 billion and $2.6 billion in state resources in fiscal years 2005–06 and 2006–07, respectively, and $475 million in resources from the counties in each fiscal year.

Welfare System

The entire statewide welfare system was changed in response to the change in federal welfare law enacted in 1996 (see "Welfare System"). Under the CalWORKs (defined below) program, counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements. Counties are still required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

Welfare System

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104–193, the "Law") fundamentally reformed the nation's welfare system. The Law included provisions to: (i) convert Aid to Families with Dependent Children ("AFDC"), an entitlement program, to Temporary Assistance for Needy Families ("TANF"), a block grant program with lifetime time limits on TANF recipients, work requirements and other changes; (ii) deny certain federal welfare and public benefits to legal noncitizens (subsequent federal law has amended this provision), allow states to elect to deny additional benefits (including TANF) to legal noncitizens, and generally deny almost all benefits to illegal immigrants; and (iii) make changes in the Food Stamp program, including to reduce maximum benefits and impose work requirements. The TANF block grant formula under the Law is operative through September 30, 2010, as further described below.

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare systems. Effective January 1, 1998, California Work Opportunity and Responsibility to Kids ("CalWORKs") replaced the former AFDC and Greater Avenues to Independence programs. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid, both lifetime as well as current period. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

Caseload under CalWORKs is projected to increase by a modest amount in 2006-07 after many consecutive years of decline. The revised CalWORKs caseload projections are 484,000 cases in fiscal year 2005-06 and 487,500 cases in fiscal year 2006-07. This still represents a major decline in caseload from the rapid growth of the early 1990s, when caseload peaked at 921,000 cases in fiscal year 1994–95. Since CalWORKs' inception in January 1998, caseload has declined by nearly 34 percent, and the number of working recipients has increased from less than 20 percent in 1996 to nearly 40 percent in 2004.

California will continue to meet, but not exceed, the federally-required $2.7 billion combined state and county maintenance of effort ("MOE") requirement in fiscal years 2005-06 and 2006-07. In an effort to keep program expenditures within the TANF Block Grant and TANF MOE amounts and address the Administration's objective to alleviate the structural deficit between the state's revenues and expenditures, the 2005 Budget Act suspended the July 2005 and July 2006 CalWORKs grant cost-of-living adjustments. The 2006-07 Governor's Budget also includes several proposals to maintain expenditures within available resources while continuing efforts to move people from welfare to work.

Major proposals include continued efforts to fully implement state welfare system measures initiated in 2004-05, capturing 2005-06 savings resulting from a projected decrease in child care expenditures, delaying incentive payments to counties for the Pay for Performance program, and reducing the CalWORKs single allocation to counties. These and other smaller CalWORKs program reductions are projected to result in net savings totaling $238.9 million in 2006-07. Of this savings, $40 million is General Fund savings in other programs which is achieved by using federal TANF Block Grant funds to offset eligible General Fund expenditures.

The 2006-07 Governor's Budget includes total CalWORKs-related expenditures of $6.7 billion for fiscal year 2006-07, compared to $6.8 billion for fiscal year 2005-06. Both years include an augmentation of $191.9 million for employment services to enable recipients to move off of aid and into sustainable employment. The Governor's Budget includes a TANF reserve of $181.4 million in 2006-07, which is available for unanticipated needs in any program for which TANF Block Grant funds are appropriated, including CalWORKs benefits, employment services, county administration, and child care costs. This reserve may be needed for such pressures as litigation or the cost of increased participation rate requirements that have been proposed at the federal level with the reauthorization of the TANF program.

Authorization for the TANF program was recently reauthorized and extended until September 30, 2010. The federal reauthorization legislation will change countable work activities under TANF and apply new federal work participation rates to separate state programs. In addition, because reauthorization legislation effectively eliminates the state's caseload reduction credit, the bulk of the CalWORKS caseload will be subject to the 50 percent work participation rate beginning in federal fiscal year 2007. The state would need to make substantial investments in child care and employment services in order to meet the new federal work participation rate requirements if this proposal was adopted. Failure to meet these requirements would result in significant federal penalties. The Legislative Analyst's Office, in a preliminary report on the federal Deficit Reduction Act of 2005, which included the TANF reauthorization, has estimated that these penalties could total about $445 million over the next five fiscal years, but would only occur in 2009-10 and 2010-11. This cost could be offset in part by an estimated $125 million in new federal funds for child care services over the same period.

Health Programs

<u>Medi-Cal</u> – Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves just over one in six Californians. Federal law requires Medi-Cal to provide a set of basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, and skilled nursing care. Also, federal matching funds are available if states choose to provide any of numerous optional benefits. The federal government pays for half of the cost of providing most Medi-Cal services in California, including optional benefits. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by payments from managed care plans. Approximately 3.3 million Medi-Cal beneficiaries (almost half of the people receiving Medi-Cal benefits and services) are currently enrolled in managed care plans.

In 2005-06, Medi-Cal expenditures are estimated to be $33.8 billion ($13.2 billion from the General Fund), a General Fund increase of 12.8 percent above 2004-05 expenditures. For 2006-07, the Governor's Budget includes $34.7 billion ($13.7 billion from the General Fund), which reflects an increase of $974.7 million ($542.3 million from the General Fund) above the revised 2005-06 budget. These increases are due primarily to increases in caseload, utilization, and costs for services.

Average monthly caseload in Medi-Cal is estimated to be 6.7 million in 2005-06. Caseload is expected to increase in 2006-07 by approximately 126,600, or 1.9 percent, to 6.8 million eligible people. This overall increase compares to an expected 1.4 percent increase in the state's population over the same period.

The federal Medicare Modernization Act (MMA) of 2003 established an outpatient prescription drug program, known as Medicare Part D, for approximately 43 million Medicare beneficiaries, including one million Californians eligible for both Medicare and Medi-Cal ("dual eligibles"). Effective January 1, 2006, the federal government no longer provides Medicaid matching funds to the states for drug categories now covered by Medicare. In addition, states no longer get Medicaid or supplemental rebates for drugs covered by Medicare. Although the intent of the MMA is for states to receive 10 percent of the savings for no longer providing drug coverage to dual eligibles, the revised federal formula for this calculation will only save the Medi-Cal program $64.9 million annually on an accrual accounting basis, rather than the $122.5 million, which would reflect a full 10 percent. Due to federal implementation problems, the state is providing interim emergency drug coverage to dual eligibles who have not been able to receive their prescription drugs. As of February 13, 2006, the state has incurred expenses of $22.7 million for this program. The state expects to be fully reimbursed by the federal government for all expenses related to providing this emergency drug coverage.

On February 8, 2006, President Bush signed the Deficit Reduction Act of 2005, which makes several changes to the federal Medicaid program that will impact Medi-Cal. The most significant change will require, beginning October 2009, states' managed care quality improvement fees to be assessed on all managed care plans, not just on those serving Medicaid beneficiaries. Without conforming statutory changes, the state would lose approximately $250 million in annual federal revenues beginning in 2009-10 due to non-compliance because current California law permits the state to only collect managed care quality improvement fees on managed care plans serving Medi-Cal beneficiaries.

SSI/SSP – The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. The 2006-07 Governor's Budget proposes $3.6 billion from the General Fund for the SSI/SSP Program. This represents a 1.7 percent increase from the revised 2005-06 funding level. The average monthly caseload in this program is estimated to be 1.2 million recipients in 2006-07, a 2.4 percent increase over the 2005-06 projected level.

Current law suspends the pass-through provision of the January 2006 and January 2007 federal SSI Cost-of-Living-Adjustments (COLAs) until April 2006 and April 2007, resulting in General Fund savings of $78.3 million and $94.9 million, respectively. This means that rather than the grant levels increasing, the SSP portion of the grant is reduced by the same amount as the increased federal SSI portion resulting from these federal COLAs. The 2006-07 Governor's Budget proposes to extend withholding the pass-through of the January 2007 federal COLA until July 2008. The resulting General Fund savings are projected to be $48.1 million in 2006-07 and over $185 million in 2007-08.

Pension Trusts

The three principal retirement systems in which the state participates are the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System ("CalSTRS") and the University of California Retirement System ("UCRS"). The assets and liabilities of the funds administered by these systems as well as certain other retirement funds administered by the state, are included in the financial statements of the state as fiduciary funds and described in Note 23 to the Audited Annual Financial Statements of the State of California for the year ended June 30, 2004 (the

"Audited Financial Statements"), incorporated by reference in or attached to this APPENDIX A. See "FINANCIAL STATEMENTS."

CalPERS

CalPERS administers the Public Employment Retirement Fund ("PERF"), which is a multiple employer defined benefit plan. In addition to the state, employer participants, as of June 30, 2005, included 1,059 school districts and 1,523 other public agencies. As of the same date, PERF had 1,016,982 active and inactive program members and 431,901 benefit recipients. The payroll for state employees covered by PERF for fiscal year 2003-04 was approximately $12.7 billion.

Employees, except those participating in the non-contributory, second tier plan (and who receive generally lower benefits) contribute to PERF based upon required contribution rates. Approximately 6.5 percent of the employees participate in the second tier plan. As part of a memorandum of understanding with the employee unions, the state agreed to suspend employee contributions for miscellaneous and industrial employees for fiscal years 2002-03 and 2003-04. The impact on the unfunded liability from suspending the employee contribution for two years was $354.5 million. These contributions will be repaid over the next thirty years through contributions toward the unfunded liability.

Contributions to PERF are determined annually on an actuarial basis. Payments into PERF are made from the employer contributions, including the state, and employee contributions. State contributions are made from the General Fund, Special Funds, and Non-Governmental Cost Funds. The following table shows the state's contributions to PERF for fiscal years 2000-01 through 2004–05 and its estimated contributions for fiscal years 2005–06 and 2006-07. Approximately 55 percent of the state contributions to PERF are made from the General Fund.

TABLE 8

State Contribution To PERF
Fiscal Years 2000-01 to 2006–07

2000–01	$ 156,700,000
2001–02	677,200,000
2002–03	1,190,000,000
2003–04	2,213,000,000
2004–05	2,564,000,000
2005–06[1]	2,429,000,000
2006–07[1]	2,483,000,000

[1] Estimated.

Source: State of California, Department of Finance.

The increased contributions starting in fiscal year 2001-02 are due to several factors, including poor investment returns in the early 2000's and benefit enhancements enacted in 1999. See Table 9 below. The leveling off of contributions in 2005-06 and later years is due in part to new policies adopted by the CalPERS Board, described below.

Set forth below is a summary of additions and deductions from PERF for the past five fiscal years. These figures reflect activity for all employers, including the state.

TABLE 9

Public Employees' Retirement Fund
Schedule of Additions and Deductions
($ in millions)*

	Fiscal Year Ended June 30,				
	2000	**2001**	**2002**	**2003**	**2004**
Contributions: Employer	$ 363	$ 322	$ 801	$ 1,925	$ 4,262
Contributions: Employee	1,751	1,766	2,155	1,888	2,266
Total Contributions	$ 2,114	$ 2,088	$ 2,956	$ 3,813	$ 6,528
Net Investment Income/(Losses) (including Appreciation)	16,579	(12,256)	(9,704)	5,474	24,266
Total Additions	18,697	(10,160)	(6,744)	9,296	30,801
Total Deduction (Benefits Paid and Administrative Expenses)	(5,514)	(6,106)	(6,743)	(7,320)	(7,980)
Net Assets as of the Beginning of the Fiscal Year	159,358	172,541	156,274	142,787	144,763
Net Assets as of the End of the Fiscal Year	172,541	156,274	142,787	144,763	167,584
Change in Net Assets	13,183	(16,266)	(13,487)	1,975	22,821

* Totals may not add up due to adjustments.

Source: State of California, Comprehensive Annual Financial Reports, Fiscal Year Ended June 30, 2000, 2001, 2002, 2003 and 2004.

Each employer (including the state) contributes an amount equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. Actuarial valuations of the PERF are performed as of June 30 of each year. The most recent valuation, as of June 30, 2004, showed an actuarial accrued unfunded liability allocable to state employees of $12.7 billion. The actuarial valuation for PERF was based upon an assumed 7.75 percent investment return. The average net rate of return experienced by PERF over the past fifteen years, ten years and five years (in each case through fiscal year 2003-04) has been 9.6 percent, 9.7 percent, and 3.5 percent, respectively.

On April 19, 2005, the Board of Directors of CalPERS adopted a new policy for calculating the actuarial value of assets, spreading market value asset gains and losses over 15 years (rather than 3 years, as had been the practice) and changing the corridor limits for the actuarial value of assets from 90 percent–110 percent of market value to 80 percent –120 percent of market value. In addition, CalPERS will calculate the annual contribution amount with regard to gains and losses as a rolling 30 year amortization of all remaining unamortized gains or losses as opposed to the current 10 percent of such gains and losses. The effect of this policy will reduce the state's fiscal year 2005-06 General Fund estimated contribution to CalPERS by $152 million ($251.5 million from all funds) from what was originally anticipated for fiscal year 2005-06, substantially all due to the longer spreading periods. The new policy resulted in slightly lower rates in 2006-07 since losses from previous years are spread out over a longer period of time.

Set forth below is a schedule of funding projections of the PERF with respect to the state's covered payroll. Actuarial information for each year is based upon an actuarial valuation performed as of the end of such fiscal year.

TABLE 10

Public Employees' Retirement Fund
Schedule of Funding Projections (State only)
($ in millions)

	Fiscal Year Ended June 30,				
	2000	**2001**	**2002**	**2003**	**2004**
Actuarial Value of Assets	$65,948	$66,976	$62,201	$62,515	$67,081
Actuarial Accrued Liabilities (AAL)-entry age	59,685	64,567	68,854	74,450	79,800
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL)	6,263	2,409	(6,653)	(11,935)	(12,719)
Covered Payroll	11,191	11,905	12,423	12,628	12,624
Funded Ratio	110.5%	103.7%	90.3%	84.0%	84.1%

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2000, 2001, 2002, 2003 and 2004.

CalSTRS

CalSTRS administers the Teacher's Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan ("STRP"). STRP is a cost-sharing, multi employer, defined benefit pension plan that provides retirement, disability and survivor benefits for teachers and certain other employees of the California public school system. The STRP is comprised of three programs: the Defined Benefit Program ("DB Program"), the Defined Benefit Supplement Program ("DBS"), and the Cash Balance Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account ("SBMA") which provides purchasing power protection for retired members. As of June 30, 2004, the DB Program had approximately 1,200 contributing employers, approximately 560,808 active and inactive program members and 193,245 benefit recipients.

The state's General Fund contributions to the DB Program and the SBMA are established by statute. The contribution rate to the DB Program is currently 2.017 percent of teacher payroll for the fiscal year ending in the immediately preceding calendar year. This percentage resulted in a $472 million contribution for fiscal year 2004-05. The contribution rate to the SBMA is currently 2.5 percent of teacher payroll for the fiscal year ending in the immediately preceding calendar year. This percentage resulted in a $585 million contribution for fiscal year 2004-05. In 2004, CalSTRS actuaries determined that there was an unfunded liability associated with the 1990 benefit structure and, as a result, the state was required to pay an additional 0.524 percent ($92 million from the General Fund) in fiscal year 2004-05 and one quarterly payment of $31 million in fiscal year 2005-06 to the DB Program. The 2004 valuation of CalSTRS found the 1990 benefit structure to be fully funded and the state will not be required to make this additional contribution in fiscal year 2005–06. An actuarial analysis performed in 2005 at the direction of the Department of Finance concluded that the currently required state contributions to the SBMA are more than sufficient to maintain purchasing power at 80 percent. The following table shows the state's contributions to CalSTRS for fiscal years 2000 01 through 2004-05 and its estimated contributions for fiscal years 2005–06 and 2006-07.

TABLE 11

State Contribution To CalSTRS
Fiscal Years 2000-01 to 2006–07

	DB Program	SBMA
2000–01	$454,624,000	$447,729,000
2001–02	384,749,000	487,025,000
2002–03	430,538,000	544,984,000
2003–04	450,895,000	58,868,000
2004–05	563,867,000	584,925,000
2005–06(1)	499,697,000	581,367,000
2006–07(1)	482,287,000	597,777,000

(1) Estimated.

Source: State of California, Department of Finance.

The table above does not reflect the impact of the Superior Court decision requiring the state to pay $500 million of the contribution deferred in fiscal year 2003-04, to CalSTRS. See "LITIGATION—Challenge Seeking Payment to Teachers' Retirement Board."

Set forth below is a summary of additions and deductions from the DB Program for the past five fiscal years. These figures reflect activity for all employers, as well as the state's contribution.

TABLE 12

State Teachers' Retirement Defined Benefit Program Fund
Schedule of Additions and Deductions
($ in millions)*

	Fiscal Year Ended June 30,				
	2000	2001	2002	2003	2004
Contributions: Employer	$ 1,591	$ 1,884	$ 1,725	$ 1,968	$ 2,047
Contributions: Employee	1,532	1,843	1,873	2,094	2,210
Contributions: State	939	946	916	1,015	549
Total Contributions	$ 4,063	$ 4,674	$ 4,514	$ 5,077	$ 4,806
Net Investment Income/(Losses) (including Appreciation)	12,691	(10,232)	(6,297)	3,688	16,607
Total Additions	16,753	(5,558)	(1,789)	8,765	21,412
Total Deduction (Benefits Paid and Administrative Expenses)	(3,756)	(4,086)	(4,639)	(5,102)	(5,723)
Net Assets as of the Beginning of the Fiscal Year	99,785	112,782	103,138	96,709	100,372
Net Assets as of the End of the Fiscal Year	112,782	103,138	96,709	100,372	116,061
Change in Net Assets	12,997	(9,644)	(6,428)	3,663	15,689

* Totals may not add up due to adjustments

Source: State of California, Comprehensive Annual Financial Reports, Fiscal Year Ended June 30, 2000, 2001, 2002, 2003 and 2004.

Each employer contributes 8.25 percent of payroll, while employees contribute 6 percent of pay. Actuarial valuations of the DB Program are typically performed as of June 30 of odd-numbered years. However, CalSTRS agreed to perform an actuarial valuation as of June 30, 2004. This valuation showed an actuarial accrued unfunded liability of $24 billion. The actuarial valuation of the DB Program was based upon an assumed 8 percent investment return. The average net rate of return experienced by the DB Program over the past fifteen years, ten years and five years (in each case through fiscal year 2003-04) was 9.5 percent, 9.6 percent and 3.7 percent, respectively.

Set forth below is a schedule for funding projections for the DB Program for the past five fiscal years. Actuarial information is based upon actuarial valuations performed as of the end of such fiscal year, except information as of June 30, 2002 is based upon actuarial valuation for June 30, 2001.

TABLE 13

State Teachers' Retirement Defined Benefit Program Fund
Schedule of Funding Projections
($ in millions)

	Fiscal Year Ended June 30,				
	2000	**2001**	**2002**[(1)]	**2003**	**2004**
Actuarial Value of Assets	$102,225	$107,654	$107,654	$108,667	$114,094
Actuarial Accrued Liabilities (AAL)-entry age	93,124	109,881	109,881	131,777	138,254
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL)	9,101	(2,227)	(2,227)	(23,110)	(24,160)
Covered Payroll	18,244	20,585	20,585	23,867	23,764
Funded Ratio	109.8%	98.0%	98.0%	82.5%	82.5%

(1) Based upon actuarial valuation as of June 30, 2001.

Source: CalSTRS Defined Benefit Program Actuarial Valuation as of June 30, 2000, 2001, 2002, 2003 and 2004.

UC Regents

The University of California Retirement System consists of: (i) a retirement plan, which is a single employer defined benefit plan funded with university and employee contributions ("UCRP"); (ii) a voluntary early retirement incentive program, which is a defined benefit plan for employees who take early retirement ("PERS-VERIP"); and (iii) three defined contribution plans. As of June 30, 2005, plan membership totaled 215,016, comprised of 124,642 active members, 47,123 inactive members (includes terminated nonvested employees who are eligible for a refund), and 43,251 retirees and beneficiaries receiving benefits.

The state does not make any contributions to the University of California Retirement System. As of June 30, 2005, employee and employer contributions were not required to UCRP and PERS-VERIP, due to the fully funded status of each plan.

Set forth below is a summary of additions and deductions from the UC Regents Retirement Fund for the past five fiscal years.

TABLE 14

University of California Retirement Plan Fund
Schedule of Additions and Deductions
($ in thousands)*

	Fiscal Year Ended June 30,				
	2001	**2002**	**2003**	**2004**	**2005**
Contributions: Employer	$ 517	$ 118	$ 811	$ 5,150	$737
Contributions: Employee	4,405	2,954	7,060	2,503	1,653
Total Contributions	$ 4,922	$ 3,072	$ 7,871	$ 7,653	$2,390
Net Investment Income/(Losses) (including Appreciation)	(2,301,959)	(3,460,714)	1,892,384	4,998,664	3,982,916
Total Additions	(2,297,037)	(3,457,642)	1,900,255	5,006,317	3,985,306
Total Deduction (Benefits Paid and Administrative Expenses)	(903,981)	(970,453)	(1,015,248)	(1,145,469)	(1,315,466)
Net Assets as of the Beginning of the Fiscal Year	42,070,918	38,869,900	34,441,805	35,326,812	39,187,660
Net Assets as of the End of the Fiscal Year	38,869,900	34,441,805	35,326,812	39,187,660	41,857,500
Change in Net Assets	(3,201,018)	(4,428,095)	885,007	3,860,848	2,669,840

* Totals may not add up due to adjustments

Source: State of California, Comprehensive Annual Financial Reports, Fiscal Year Ended June 30, 2001, 2002, 2003, 2004 and 2005.

Set forth below is a schedule for funding projections for the UCRP for the past five fiscal years. Actuarial information is based upon valuation performed as of the end of the fiscal year.

TABLE 15

University of California Retirement Plan Fund
Schedule of Funding Projections
($ in millions)

	Fiscal Year Ended June 30,				
	2001	**2002**	**2003**	**2004**	**2005**
Actuarial Value of Assets	$40,554	$41,649	$41,429	$41,293	$41,085
Actuarial Accrued Liabilities (AAL)-entry age	27,451	30,100	32,955	35,034	37,252
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL)	13,103	11,549	8,474	6,259	3,833
Covered Payroll	6,539	7,227	7,734	7,835	8,150
Funded Ratio	147.7%	138.4%	125.7%	117.9%	110.3%

Source: University of California Retirement Plan Actuarial Valuation Report as of July 1, 2001, 2002, 2003, 2004 and 2005.

Post Retirement Benefits

The state also provides post-employment health care and dental benefits to its employees, and recognizes these costs on a "pay-as-you-go" basis. The cost of these benefits in fiscal year 2006–07 is estimated at slightly over $1 billion, in comparison to an estimated $895 million in fiscal year 2005–06 and $801 million for fiscal year 2004-05. As of June 30, 2005, approximately 124,695 retirees were enrolled to receive health benefits and 101,655 to receive dental benefits. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. Employees vest for this benefit after serving ten years with the state. With ten years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula.

On June 21, 2004, GASB released its Governmental Accounting Standard Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("Statement No. 45"). Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from pension plan expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. Statement 45 reporting requirements are effective for the state in the fiscal year beginning July 1, 2007. The state plans to include the actuarial computation of its liability for post-employment health care benefits in the 2007-08 financial statements.

The 2006-07 Governor's Budget proposes that the State Controller's Office will contract with a private actuarial firm to calculate the state's liability for these benefits. Such report, when made, may negatively affect the state's financial reports and impact its credit ratings if the state does not adequately manage the long-term costs for other post employment benefits. Recently, the Legislative Analyst's Office released a report suggesting that the unfunded liability for these benefits could be tens of billions of dollars, and that the cost to fully amortize the unfunded liability could be several billion dollars annually. The costs suggested by the Legislative Analyst's Office are not based on any actuarial projections reflecting data for California, and may or may not be consistent with the results of the proposed actuarial valuation.

THE BUDGET PROCESS

General

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund Budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") and as described below, beginning with fiscal year 2004–05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and fund balances at the time of the passage and as set forth in the budget bill.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. See "THE BUDGET PROCESS—Constraints on the Budget Process" below. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Except as noted in the previous paragraph and in the next sentence, bills containing General Fund appropriations must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing appropriations for K-12 schools or community colleges ("K-14 education") only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Constraints on the Budget Process

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have increased the difficulty of raising state taxes, restricted the use of the state's General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. Historic examples of provisions that make it more difficult to raise taxes include Proposition 13, passed in 1978, which, among other things, required that any change in state taxes enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature. Examples of provisions restricting the use of General Fund revenues are Proposition 98, passed in 1988, which mandates that a minimum amount of General Fund revenues be spent on local education, and Proposition 10, passed in 1988, which raised taxes on tobacco products and mandated how the additional revenues would be expended. See "STATE FINANCES—Proposition 98" and "—Sources of Tax Revenue—Taxes on Tobacco Products."

More recently, a new series of Constitutional amendments sponsored by Governor Schwarzenegger and approved by the voters, have also affected the budget process. These include Proposition 58, approved in 2004, which requires the adoption of a balanced budget and restricts future borrowing to cover budget deficits, and Proposition 1A, approved in 2004, which limits the Legislature's power over local revenue sources. These recent constitutional amendments and other voter initiatives affecting the budget process are described below.

Proposition 58 (Balanced Budget Amendment)

Proposition 58, approved by the voters in 2004, requires the state to enact a balanced budget, establish a special reserve in the General Fund and restricts future borrowing to cover fiscal year end deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the state would in some cases have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004–05, Proposition 58 requires the Legislature to pass a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special session to deal with the shortfall. The balanced budget determination is made by subtracting expenditures from all available resources, including prior-year balances.

If the Governor determines that the state is facing substantial revenue shortfalls or spending increases, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the Governor legislation to address the fiscal emergency within 45 days, the Legislature would be prohibited from: (i) acting on any other bills or (ii) adjourning in joint recess until such legislation is passed.

Proposition 58 also requires that a special reserve (the Budget Stabilization Account) be established in the state's General Fund. Beginning with fiscal year 2006–07, a specified portion of estimated annual General Fund revenues would be transferred by the State Controller into the Budget Stabilization Account no later than September 30 of each fiscal year. These transfers would continue until the balance in the Budget Stabilization Account reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement would be in effect whenever the balance falls below the $8 billion or 5 percent target. The annual transfers can be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year. Proposition 58 also provides that one-half of the annual transfers shall be used to retire Economic Recovery Bonds, until a total of $5 billion has been used for that purpose. The 2006-07 Governor's Budget proposes to transfer an estimated $920 million to the Budget Stabilization Account, of which $460 million will be used to retire Economic Recovery Bonds.

Proposition 58 also prohibits certain future borrowing to cover fiscal year end deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the state), or (ii) inter-fund borrowings.

Proposition 1A (Local Government Finance)

As described under "STATE FINANCES—Local Governments" above, Senate Constitutional Amendment No. 4 (also known as "Proposition 1A"), approved by the voters in the November 2004 election, amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008–09, the state will be able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe state fiscal hardship and two–thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The state also will not be able to borrow from local property tax revenues for more than 2 fiscal years within a period of 10 fiscal years. In addition, the state cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

Proposition 1A also prohibits the state from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005–06, if the state does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass state action that transfers to cities, counties and special districts financial responsibility for a required program for which the state previously had partial or complete responsibility. The state mandate provisions of Proposition 1A do not apply to schools or community colleges nor to mandates relating to employee rights.

Proposition 49 (After School Education Funding)

An initiative statute, Proposition 49, called the "After School Education and Safety Program of 2002," was approved by the voters on November 5, 2002, and requires the state to expand funding for before and after school programs in the state's public (including charter) elementary, middle and junior high schools. This increase is required in 2006-07, and the 2006-07 Governor's Budget therefore reflects a $428.4 million increase for these programs, for a total of $550 million. The budget allocates $547.8 million for grants for before and after school programs, and $2.2 million for administrative costs for the California State Department of Education. These additional funds are added to the Proposition 98 minimum funding guarantee for K-14 education and, in accordance with the initiative, cannot be reduced in future years unless the Proposition 98 guarantee is suspended. See "STATE FINANCES—Proposition 98".

Proposition 63 (Mental Health Services)

On November 2, 2004 the voters approved Proposition 63, which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million for purposes of funding and expanding mental health services. In addition, Proposition 63 prohibits the Legislature or the Governor from redirecting funds now used for mental health services to other purposes or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003–04.

Public Preschool Initiative Measure

An initiative measure, which would establish a constitutional entitlement beginning in 2010-11 to one year of voluntary preschool for all children the year before they enter kindergarten, has qualified for the ballot for the June 6, 2006 election. Effective in 2007, the initiative would establish a 1.7 percent tax on individual income above $400,000 annually and income above $800,000 for couples. It is estimated that this additional tax will generate approximately $2.4 billion in annual revenue by 2010-11 for purposes of implementing the initiative. Preschool programs would be overseen by the Superintendent of Public Instruction and county governments, which would be charged with conducting preschool needs assessments (including facilities), developing curriculum, conducting outreach, and setting teacher recruitment and pay levels. Revenues in the early years of the program could be used for facilities, teacher training, student financial aid, increasing the capacity of higher education teacher preparation programs, and early implementation of preschool services in the attendance areas of low-performing schools.

Proposal to Modify Proposition 42

The Administration has proposed a Constitutional Amendment, Assembly Constitutional Amendment No. 4 ("ACA 4"), to permanently protect Proposition 42 transportation funds from any further suspensions. Current provisions of the State Constitution enacted as Proposition 42 in 2002, permit the suspension of the annual transfer of motor vehicle fuel sales tax revenues from the General Fund to the Transportation Investment Fund if the Governor declares that the transfer will result in a "significant negative fiscal impact" on the General Fund and the Legislature agrees with a two-thirds vote of each house. ACA 4 would repeal the constitutional provisions that allow this suspension. In 2003-04, the scheduled Proposition 42 transfer of $868 million was suspended, and in 2004-05 the transfer of $1.258 billion was suspended. The Proposition 42 transfer was fully funded in 2005-06 at $1.345 billion. The 2006-07 Governors' Budget proposes to fully fund the Proposition 42 transfer at $1.406 billion for 2006-07, and also includes $920 million ($874 million principal and $56 million interest) for advance repayment of a portion of the 2004-05 suspension. See "CURRENT STATE BUDGET - Proposed Fiscal Year 2006-07 Budget".

PRIOR FISCAL YEARS' BUDGETS

Fiscal Years Prior to 2004-05

The California economy grew strongly between 1994 and 2000, generally outpacing the nation, and as a result, for the five fiscal years from 1995–96 to 1999–00, the General Fund tax revenues exceeded the estimates made at the time the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid and to fund new ongoing program initiatives, including education spending above Proposition 98 minimums, tax reductions, aid to local governments and infrastructure expenditures. The state ended the 2000–2001 fiscal year with a budget reserve of $5.39 billion.

However, during fiscal year 2001–02, the state experienced an unprecedented drop in revenues compared to the prior year. The three largest tax sources generated only $59.7 billion, a drop of over $13 billion from fiscal year 2000–01, the vast bulk of which was attributable to reduced personal income taxes from stock option and capital gains activity. During the three fiscal years between 2001-02 and 2003-04, the state encountered severe budgetary difficulties because of reduced revenues and failure to make equivalent reductions in expenditures, resulting in successive budget deficits. The budgets for these years included substantial reliance on one-time measures, internal borrowing, and external borrowing. The state also faced a cash flow crisis during this period which was relieved by the issuance of Revenue Anticipation Warrants in June 2002 and June 2003 and Economic Recovery Bonds in the spring of 2004. Additional information about prior fiscal years' budgets for this period can be obtained from prior official statements of state bonds.

2004 Budget Act

The 2004 Budget Act was adopted by the Legislature on July 29, 2004, along with a number of implementing measures, and signed by the Governor on July 31, 2004. This was the first budget signed by Governor Schwarzenegger following his election to office after a recall of Governor Davis in November 2003. In approving the budget, the Governor vetoed $116 million in appropriations (including $80 million in General Fund appropriations). The 2004 Budget Act largely reflected the proposals contained in the May Revision of the 2004-05 Governor's Budget, including the application for budgetary purposes of $2 billion of proceeds of the economic recovery bonds issued in fiscal year 2003–04 (see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds").

Under the 2004 Budget Act, General Fund revenues were projected to increase 3.6 percent, from $74.6 billion in fiscal year 2003–04 (which included approximately $2.3 billion in additional tobacco securitization bond proceeds) to $77.3 billion in fiscal year 2004–05. The revenue projections assumed a continuing rebound in California's economy as reflected in several key indicators. Excluding the impact of the economic recovery bonds, General Fund expenditures were estimated to increase by 6.7 percent, from $75.6 billion in fiscal year 2003–04 to $80.7 billion in fiscal year 2004–05. The June 30, 2005 reserve was projected to be $768 million, compared to an estimated June 30, 2004 reserve of $2.198 billion.

In summary, the 2004 Budget Act addressed a projected $13.9 billion budget shortfall through expenditure cuts ($4.0 billion or 28.7 percent), cost avoidance ($4.4 billion or 31.7 percent), fund shifts ($1.6 billion or 11.2 percent), loans or borrowing ($2.1 billion or 15.4 percent), and transfers and other revenue ($1.8 billion or 13.0 percent).

The 2004 Budget Act contained the following major components:

1. Rebasing Proposition 98 Minimum Funding Guarantee—The level of Proposition 98 appropriations was reset at a level approximately $2 billion less than would otherwise be required for fiscal year 2004–05 pursuant to legislation relating to the 2004 Budget Act. See "STATE FINANCES—Proposition 98."

2. Higher Education—A new fee policy for higher education was implemented whereby future undergraduate and graduate level fee increases are tied to increases in per-capita personal income, with flexibility to increase fees by not more than an average of 10 percent a year over the next three years. Under the fee policy, graduate fees may increase at rates in excess of undergraduate fees until a 50 percent differential is achieved. In fiscal year 2004–05, fees were increased 14 percent for undergraduates and 20 percent for graduate students (25 percent for CSU graduate students majoring in non-teacher preparation programs). The new long-term policy is designed to ensure that public university students are protected from future dramatic fee increases as a consequence of declines in General Fund resources. The 2004 Budget Act included $750 million in various spending reductions for higher education from otherwise mandated levels.

3. Health and Human Services—While the Administration proposed major reforms of the Medi-Cal program, any such reforms were expected to take at least one year to implement. As a result, the 2004 Budget Act did not include any savings attributed to Medi-Cal redesign. Other strategies independent of the Medi-Cal redesign were included in the 2004 Budget Act, such as the implementation of Medi-Cal rate increases for County Organized Health Systems and Pharmacy Reimbursement Realignment. In addition, increased work incentives under the CalWORKs program were proposed. The budget included $992 million in reductions in various social service programs from otherwise mandated levels. Based on updated projections of caseload and cost-per-case, these savings are now estimated to be $1 billion in fiscal year 2004–05.

4. Pension Reform—The 2004 Budget Act eliminated state contributions to CalPERS on behalf of new state employees for the first two years of employment. In addition, the 2004 Budget Act assumed the issuance of $929 million pension obligation bonds to cover a portion of the state's required contributions to CalPERS in fiscal year 2004–05. The pension bonds were not issued in fiscal year 2004-05 due to litigation delays. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Pension Obligation Bonds."

5. Substantially Reduced External Borrowings—As stated above, the 2004 Budget Act assumed the issuance of $929 million in pension obligation bonds to pay a portion of the pension obligations in fiscal year 2004–05. In addition, approximately $2 billion of economic recovery bond proceeds, which were deposited in the Deficit Recovery Fund, were used to offset fiscal year 2004–05 General Fund expenditures. In contrast, in fiscal year 2003–04, aggregate borrowings to address current expenses and accumulated deficits are estimated at $11.5 billion, including $2.3 billion of tobacco securitization proceeds and $9.2 billion of economic recovery proceeds (representing approximately $11.254 billion of total bond proceeds, less $2.012 billion deposited into the Deficit Recovery Fund for application in fiscal year 2004–05). See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds."

6. Tax Relief—The 2004 Budget Act reflects the elimination of the VLF offset program beginning in fiscal year 2004–05. See “STATE FINANCES—Local Governments.”

7. Indian Gaming—The 2004 Budget Act included $300 million in revenues as a result of the renegotiation of tribal gaming compacts and the negotiation of new compacts with tribes that wish to expand gaming activities. As described below, the state now assumes the receipt of only $19 million in such revenues in fiscal year 2004–05. The 2004 Budget Act authorized the state to sell an additional revenue stream received from payments made by certain Indian tribes to secure up to $1.5 billion of securities, the proceeds of which will be used by the state to repay prior transportation loans. As described below, pending litigation relating to the Indian gaming compacts has delayed the issuance of these securities. See “LITIGATION—Actions Seeking to Enjoin Implementation of Certain Tribal Gaming Compacts.”

8. Other Revenue Enhancements and Expenditure Reductions—The 2004 Budget Act also included: (i) $1.206 billion in savings for the suspension of the Transportation Investment Fund (Proposition 42) transfer; (ii) $450 million in savings from deposits of punitive damages awards used to offset General Fund costs in fiscal year 2004–05; (iii) $206 million for spending reductions that would result from changes in the correctional system; and (iv) $150 million of additional savings pursuant to Control Section 4.10 of the 2004 Budget Act (which gives the Department of Finance the authority to reduce appropriations in certain circumstances). Current budget projections for fiscal year 2004–05 assume no savings from punitive damages.

Fiscal Year 2004–05 Revised Estimates

The 2005-06 May Revision, released on May 13, 2005, projected that the state would end fiscal year 2004–05 with a reserve of $6.073 billion, up approximately $5.305 billion from estimates made at the time of the 2004 Budget Act. Under the 2005 Budget Act, General Fund revenues and transfers for fiscal year 2004–05 were projected at $79.9 billion, an increase of $2.6 billion compared with 2004 Budget Act estimates. These revenue and transfer projections include the following significant adjustments since the 2004 Budget Act:

- $3.779 billion increase in major tax revenues due to the improved economic forecast;
- $281 million loss in revenues due to delays in renegotiations of tribal gaming compacts;
- $577 million loss in revenues due to pending litigation contesting the issuance of pension obligation bonds; and
- $3.457 billion gain to beginning balance for amnesty related payments, which is offset by a $1.364 billion loss in revenues related to refunds/accelerations related to amnesty revenues, as described below. See “Tax Amnesty Program” below.

Under the 2005 Budget Act, General Fund expenditures for fiscal year 2004–05 are projected at $81.7 billion, an increase of $1.0 billion compared with 2004 Budget Act estimates. These expenditure projections include the following significant increases (some of which is offset by reductions not reflected here) since the 2004 Budget Act:

- $258 million in additional Proposition 98 expenditures;

- $450 million in additional expenditures due to the elimination of the assumption that punitive damages award revenues in this amount would be available for deposit into the General Fund;

- $150 million in additional expenditures due to the elimination of the assumption that California Performance Review reorganization savings would be realized in this amount;

- $352 million in additional expenditures due to pending litigation contesting the issuance of pension obligation bonds (This expenditure reduction assumption is now shifted to fiscal year 2005–06, assuming the issuance of pension obligation bonds);

- $157 million in additional expenditures due to enrollment and population growth;

- $101 million in additional expenditures for nursing facilities; and

- $88 million in additional expenditures for increased trial courts costs.

As of the 2006-07 Governor's Budget, the 2004-05 fiscal year ended with a budgetary reserve of $9,112.3 million, an increase of $2,255.3 million from the estimate as of the 2005 Budget Act. Most of this increase is attributed to stronger receipts in Personal Income Tax ($706 million), Corporation Tax ($996 million), and Sales and Use Tax ($526 million), which were attributed to the 2004-05 fiscal year.

<u>Tax Amnesty Program</u> - Chapter 226, Statutes of 2004, created a personal income tax, corporate tax, and sales and use tax amnesty program for 2002 and prior years. Penalties were waived for taxpayers who applied for the amnesty during the amnesty period of February 1, 2005 to March 31, 2005. The effect of amnesty on the accounting for General Fund revenues has been distortive since payments for years before the current year are accounted for as a "prior year adjustment" for the current year rather than being carried back to those earlier years. Additionally, since some payments were made in advance of future year payments the revenue estimates in the current year, the budget year, and beyond will be lower even though the payments received are accounted for as "prior year adjustments" to the current year. Moreover, much of the money that came in during the amnesty period was in the form of "protective payments," amounts submitted to avoid the extra penalty, but that would have otherwise been submitted in future years, or that will prove not to have been due at all, as some taxpayers will win their disputes. These refunds must be accounted for in future years.

For budgetary purposes, revenues from the amnesty program resulted in a carry-over adjustment increasing the beginning General Fund balance for fiscal year 2004-05 by $3.8 billion. This carry over adjustment will be reduced by $1.5 billion in fiscal year 2004-05, $1.1 billion in fiscal year 2005-06 and $0.9 billion in fiscal year 2006-07, to account for refunds and the recognition of income. The 2005 Budget Act estimates a net multi-year General Fund revenue gain from the amnesty program at $380 million, which represents a $180 million increase from the $200 million gain assumed at the time of the 2005-06 Governor's Budget. These amounts constitute one-time revenues that the 2005 Budget Act proposes to use for one-time purposes.

Budget Summary for Fiscal Year 2004-05

Set forth below is a chart showing a General Fund Budget Summary for fiscal year 2004-05 as originally projected by the 2004 Budget Act, as subsequently revised by the 2005-06 Governor's Budget released on January 10, 2005, and as further revised by the 2005 Budget Act.

FIGURE 1

2004–05 General Fund Budget Summary
(Millions)

	As of 2004 Budget Act	As of 2005 Budget Act	As of 2006–07 Governor's Budget
Prior Year Resources Available	$ 3,127	$ 7,279[2]	$ 7,288.1[3]
Revenues and Transfers	77,251	79,935	82,209.5
Economic Recovery Bonds[1]	2,012	2,012	2,012
Expenditures	80,693	81,728	81,816
Fund Balance	$1,697	$ 7,498	$ 9,633.6
Reserve for Liquidation of Encumbrances	$ 929	$ 641	$ 521.3
Special Fund for Economic Uncertainties	$ 768	$ 6,857	$ 9,112.3

(1) The $2.012 billion in Economic Recovery Bonds was reflected in the 2004 Budget Act as an expenditure reduction but is shown here as a separate line item.

(2) Includes approximately $3.8 billion of amnesty payments, of which, $3.4 billion will have to be refunded or will reduce revenues in future years, including a $1.5 billion adjustment in fiscal year 2004-05.

(3) Includes approximately $3.8 billion of amnesty payments, of which, $3.4 billion will have to be refunded or will reduce revenues in future years, including a $850 million adjustment in fiscal year 2004-05.

CURRENT STATE BUDGET

The discussion below of the fiscal year 2005 Budget Act, the proposed 2006-07 Governor's Budget, and the table under "Summary of State Revenues and Expenditures" is based on estimates and projections of revenues and expenditures for the 2005-06 and 2006-07 fiscal years and must not be construed as statements of fact. These estimates and projections are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in the state and the nation, and there can be no assurance that the estimates will be achieved. See "— Revenue and Expenditure Assumptions."

Background

The 2005-06 Governor's Budget, released on January 10, 2005, after funding a $500 million reserve, closed an estimated $9.1 billion gap between resources and expenditures primarily through the use of $1.7 billion of Economic Recovery Bonds, suspending the $1.3 billion transfer from the General Fund of sales taxes on fuels to transportation programs pursuant to Proposition 42, not appropriating $2.3 billion of Proposition 98 increases, and other spending reductions. The 2005-06 May Revision, released on May 13, 2005, reflected an increase in General Fund revenues compared to January of about $3.7 billion due to economic growth and about $3.8 billion in one-time revenues due to the tax amnesty programs. With the increased revenues, the May Revision proposed to eliminate the use of Economic Recovery Bonds, fully fund transportation programs under Proposition 42, and pay back 50 percent of the Vehicle License Fee Gap (subsequently increased to 100 percent at Budget Act) owed to local governments, among other things.

2005 Budget Act

The 2005 Budget Act was adopted by the Legislature on July 7, 2005, along with a number of implementing measures, and signed by the Governor on July 11, 2005. In approving the budget, the Governor vetoed $190 million in appropriations (including $115 million in General Fund appropriations).

Under the 2005 Budget Act, General Fund revenues and transfers were projected to increase 5.7 percent, from $79.9 billion in fiscal year 2004-05 to $84.5 billion in fiscal year 2005-06. The revenue projections assumed continued but moderating growth in California's economy as reflected in several key indicators. See "—Economic Assumptions." The 2005 Budget Act contained General Fund appropriations of $90.0 billion, compared to $81.7 billion in 2004-05. The difference between revenues and expenditures in fiscal year 2005-06 was funded by using a part of the $7.5 billion fund balance at June 30, 2005. The June 30, 2006 reserve was projected to be $1.302 billion, compared to an estimated June 30, 2005 reserve of $6.857 billion. About $900 million of this reserve was to be set aside for payment in fiscal year 2006-07 of tax refunds and other adjustments related to the tax amnesty program implemented in early 2005. See "PRIOR FISCAL YEARS' BUDGETS – 2004 Budget Act – Fiscal Year 2004-05 Revised Estimates."

The 2005 Budget Act also included special fund expenditures of $23.3 billion and bond fund expenditures of $4.0 billion. The state issued $3.0 billion of Revenue Anticipation Notes (RANs) to meet the state's short-term cash flow needs for fiscal year 2005-06.

The 2005 Budget Act was substantially similar to the 2005-06 May Revision proposals. It contained the following major components:

1. Proposition 98 – General Fund expenditures were proposed to increase by $2.582 billion, or 7.6 percent, to $36.6 billion. This reflected increases in the Proposition 98 guaranteed funding level resulting from increases in General Fund revenues in fiscal year 2005-06, adjusted for changes in local revenues. The Budget Act fully funded enrollment growth and a 4.23 percent cost of living increase. Per pupil spending under Proposition 98 was projected to be $7,402, compared to $7,023 in the previous year. The Budget reflected savings of $3.8 billion in 2004-05, which would be restored to the Proposition 98 budget in future years as General Fund revenue growth exceeds personal income growth. See "STATE FINANCES—Proposition 98."

2. Higher Education – The 2005 Budget Act marked the first year of funding for the Higher Education Compact under this Administration. The Compact was signed in spring 2004 with both UC and CSU to provide funding stability for enrollment growth and basic support over the next six fiscal years. The 2005 Budget Act provided for total Higher Education funding of $17.8 billion from all revenue sources, including $10.2 billion General Fund. General Fund support for both the UC and CSU was increased by $134 million (about 5 percent) compared to 2004-05. The Budget Act assumed fee increases for undergraduate and graduate students, consistent with the Compact, which were approved by the UC and CSU governing boards.

3. Health and Human Services – The 2005 Budget Act increased General Fund expenditures by $2.1 billion, or 8.5 percent, to $27.1 billion for Health and Human Services programs. This increase consisted of higher Medi-Cal expenditures of $1.3 billion, Department of Developmental Services

expenditures of $152 million, Department of Mental Health expenditures of $306 million, and Department of Social Services expenditures of $55 million, among other things. The Budget reflected the suspension of the July 2005 and July 2006 CalWORKs grant cost-of-living-adjustments (COLAs), yielding General Fund savings of $136 million in 2005-06 and $139 million in 2006-07. The Budget further assumed the January 2006 and January 2007 COLAs for SSI/SSP recipients would be suspended for estimated General Fund savings of $132 million in 2005-06, $407.5 million in 2006-07, and $281 million in 2007-08. The Budget also included federal fiscal relief of $223 million due to progress in implementing a single, statewide automated child support system.

4. Retirement and Employee Compensation – The 2005 Budget Act provided for full funding of the state's statutory obligations to the State Teachers' Retirement System (STRS). The 2005-06 May Revision had proposed to eliminate the state's statutory contribution to the STRS Defined Benefit Program, estimated at $499.7 million for 2005-06. The Budget also reflected an augmentation of $355 million for salary increases and dental and vision premium increases for certain bargaining units.

5. Vehicle License Fee Gap Loan Repayment – The 2005 Budget Act fully repaid the $1.2 billion that local governments lost between July and October of 2003, when the Vehicle License Fee offset program was temporarily suspended. The 2005-06 May Revision proposed a $593 million repayment. The state was not required to repay the gap loan until August of 2006. This payment was made in July 2005.

6. Transportation Funding – The Proposition 42 transfer was fully funded at an estimated $1.3 billion. The 2005 Budget Act included a proposal, originally contained in the 2004-05 budget, to provide about $1 billion for transportation programs from the sale of future receipts of gaming revenues from new compacts with several Indian tribes. The sale, and a related bond issue, is waiting for resolution of litigation concerning these compacts. See "LITIGATION – Actions Seeking to Enjoin Implementation of Certain Tribal Gaming Compacts." In total, these two funding sources would provide additional resources for the following programs: $808 million for the Traffic Congestion Relief Fund, $719 million for the State Transportation Improvement Program, and $402 million for transit. In addition, $384 million from Proposition 42 and Indian Gaming would go towards the $1.52 billion in funding for local streets and roads.

7. Financial Instruments – The 2005 Budget Act reflected the state's issuance of pension obligation bonds to fund approximately $525 million of the state's 2005-06 retirement obligation to the California Public Employees' Retirement System. The General Fund would be responsible for all future bond redemption costs. The state would make interest-only payments of approximately $33.6 million from 2006-07 through 2010-11 and $56.5 million in each fiscal year from 2011-12 through 2026-27. An adverse court ruling and the time required for an appeal makes it unlikely these bonds can be issued as planned. See "LITIGATION – Matter Seeking Validation of Pension Obligation Bonds." The Budget further reflected the results of the refinancing of a portion of the Golden State Tobacco Securitization Bonds. In exchange for its continued backing of these bonds, the General Fund received $525 million in August 2005. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Pension Obligation Bonds" and "– Tobacco Settlement Revenue Bonds."

The original 2005-06 Governor's Budget had included a proposal to issue $464 million of judgment bonds to finance the pending settlement of the Paterno lawsuit, but subsequent developments led to the removal of this proposal from the budget. The state has settled three related lawsuits through stipulated judgments. The largest settlement, in the amount of $428 million, provided for the state to make annual payments of $42.8 million per year, plus interest, for ten years; the payments are subject to annual appropriation by the Legislature. The first year's payment, as well as $36 million to fully discharge the other two stipulated judgments, is included in the 2005 Budget Act.

8. Taxes – The Budget Act contained no new taxes.

See also "LAO Assessments of 2005 Budget Act and the 2006-07 Governor's Budget" below.

Fiscal Year 2005-06 revised estimates in 2006-07 Governor's Budget

The 2006-07 Governor's Budget revised various revenue and expenditure estimates for 2005-06. The 2006-07 Governor's Budget projects that the state will end fiscal year 2005-06 with a budgetary reserve of $6.5 billion, up $5.2 billion from estimates made at the time of the 2005 Budget Act. In addition to the 2005-06 changes in revenues and expenditures outlined below, this change in budgetary reserve is a result of $2.3 billion higher revenues in 2004-05. See "PRIOR FISCAL YEARS' BUDGETS – 2004 Budget Act – Fiscal Year 2004-05 Revised Estimates". Under the 2006-07 Governor's Budget, General Fund revenues and transfers for 2005-06 are projected at $87.7 billion, an increase of $3.2 billion compared with 2005 Budget Act estimates. This includes the following significant adjustments since the 2005 Budget Act:

- $3.242 billion increase in major tax revenues due to the improved economic forecast;
- $198 million increase due to higher State Lands Royalties and Unclaimed Property revenues;
- $252 million loss in revenues due to not issuing pension obligation bonds as a result of pending litigation contesting their issuance.

Under the 2006-07 Governor's Budget, General Fund expenditures for fiscal year 2005-06 are projected at $90.3 billion, an increase of $0.3 billion compared with 2005 Budget Act estimates. This includes the following significant changes since the 2005 Budget Act:

- $273 million loss of expenditure savings due to not issuing pension obligation bonds as a result of pending litigation contesting their issuance;
- $126 million in additional expenditures for employee compensation;
- $117 million in additional expenditures due to caseload growth in the Medi-Cal program;
- $280 million decrease in Proposition 98 expenditures;
- $174 million decrease in non-Proposition 98 K-12 expenditures.

On February 24, 2006, the Governor proclaimed a State of Emergency based on a finding that conditions of extreme peril to the safety of persons and property exist within the Sacramento-San Joaquin Flood Control System. On March 6, 2006, under Executive Order S-01-06, the Governor directed the Department of Water Resources (DWR) to develop a plan to complete the repair of 24 critical erosion sites within the system during the current calendar year. DWR has prepared an initial evaluation of the costs of this work, and has estimated that total costs may reach $200 million. A portion of the $200 million in costs may ultimately be reimbursed by the federal government. However, neither the amount that the federal government will pay, nor the date by which federal funds will be received, is known. Additionally, the General Fund may be reimbursed by the proceeds of tax exempt bonds. The State Senate has passed legislation to appropriate $1 billion for levee repairs, but no action has been taken on this bill by the State Assembly.

Set forth below is a chart showing a General Fund Budget Summary for fiscal year 2005–06 as originally projected by the 2005 Budget Act, and as revised by the 2006-07 Governor's Budget, as well as a Budget Summary for fiscal year 2006-07.

Budget Summary for Fiscal Year 2005-06

FIGURE 2

2005–06 and 2006-07 General Fund Budget Summaries (Millions)

	2005–06		2006–07
	As of 2005 Budget Act	**As of 2006–07 Governor's Budget**	**As of 2006–07 Governor's Budget**
Prior Year Resources Available	$7,498[1]	$9,634[2]	$7,031[3]
Revenues and Transfers	84,471	87,691	91,545
Expenditures	90,026	90,294	97,902
Fund Balance	$1,943	$7,031	$674
Reserve for Liquidation of Encumbrances	$641	$521	$521
Special Fund for Economic Uncertainties	$1,302[4]	$6,510[5]	$153
Budget Stabilization Account	—	—	$460
Total Available Reserve	$1,302	$6,510	$613

(1) Included a carry-over adjustment of $2.33 billion from amnesty payments, of which $1.95 billion would have to be refunded or would reduce revenues in future years, including a $1.05 billion adjustment in fiscal year 2005-06, and $900 million in fiscal year 2006-07.

(2) Includes a carry-over adjustment of $2.94 billion from amnesty payments, of which $2.56 billion will have to be refunded or will reduce revenues in future years, including a $840 million adjustment in 2005-06, $800 million in 2006-07, and $920 million in 2007-08 or later.

(3) Includes a carry-over adjustment of $2.1 billion from amnesty payments, of which $1.72 billion will have to be refunded or will reduce revenues in future years, including a $800 million adjustment in 2006-07 and $920 million in 2007-08 or later.

(4) Included $900 million set aside for refunds/accelerations of amnesty related revenue in 2006-07.

(5) Includes a carryover amount for refunds/acceleration of amnesty related revenue now estimated to be $920 million, which is expected to be refunded over a longer period of time, beginning in 2007-08. See "PRIOR FISCAL YEARS' BUDGETS – 2004 Budget Act – Tax Amnesty Program".

Proposed Fiscal Year 2006-07 Budget

The 2006-07 Governor's Budget, released on January 10, 2006, estimates that the operating deficit for 2006-07 will be $6.3 billion. However, the Budget is balanced by using a large part of the 2005-06 ending fund balance as shown in Figure 2 above. After taking into consideration the adjustments of $1.6 billion for the repayment or prepayment of prior obligations, including $460 million to prepay the Economic Recovery Bonds, the effective operating deficit for 2006-07 is $4.7 billion.

The 2006-07 Governor's Budget projects to end fiscal year 2006-07 with a $613 million total reserve, including $460 million in the newly created Budget Stabilization Account pursuant to

Proposition 58 (2004). General Fund revenues and transfers for fiscal year 2006-07 are projected at $91.5 billion, an increase of $3.9 billion compared with revised estimates for fiscal year 2005-06. The 2006-07 Governor's Budget, among other assumptions, reflects an increase in 2006-07 major revenues of $4.8 billion, or 5.7 percent, due to continued economic growth and, to a lesser extent, the following revenue proposals: (i) conformity with federal treatment of Health Savings Accounts, resulting in a revenue loss of $3 million in 2005-06, $8 million in 2006-07, and $15 million in 2007-08 and future years, (ii) suspension of the tax credit for teachers for the 2006 tax year, resulting in a revenue gain of $210 million in 2006-07, and (iii) extension of the enhanced collection of use tax on vehicles, vessels, and aircraft through June 30, 2007, resulting in a revenue gain of $35 million in 2006-07.

General Fund expenditures for fiscal year 2006-07 are projected at $97.9 billion, an increase of $7.6 billion, or 8.4%, compared with revised estimates for 2005-06. The increase is due to:

- $5.3 billion in additional mandated program cost (70 percent of total increase)
- $1.7 billion to prepay Proposition 98 maintenance factor (22 percent)
- $0.3 billion in additional amount to prepay or repay prior obligations (4 percent)
- $0.3 billion in policy choices (4 percent)

See Figure 2 above.

The 2006-07 Governor's Budget has the following major General Fund components:

1. Repayments or prepayments of prior obligations – The 2006-07 Governor's Budget proposes $1.627 billion of repayments or prepayments of prior obligations as follows: (1) $920 million for advance payment of a portion of the 2004-05 Proposition 42 loan due in 2007-08; (2) $460 million for early retirement of the Economic Recovery Bonds; (3) $98 million to repay non-Proposition 98 mandates; and (4) $149 million to repay loans from special funds.

2. Reduction of the operating deficit – The 2006-07 Governor's Budget projects that the 2006-07 operating deficit will be $6.3 billion. After adjusting for repayments or prepayments of prior obligations of $1.6 billion, as described above, the effective operating deficit is estimated at $4.7 billion. At the time the current Administration took office in November 2003, the operating deficit for 2006-07 was projected to be $16.6 billion. After nearly two years of corrective actions, when the 2005 Budget Act was enacted in July 2005, the projection for the 2006-07 operating deficit was revised to $7.5 billion.

3. Proposition 98 – Proposition 98 General Fund expenditures are proposed at $40.5 billion, which is an increase of $4.1 billion, or 11.4 percent, compared to the revised 2005-06 estimate. When property taxes are taken into account, the total Proposition 98 guarantee is $54.3 billion, which is an increase of $4.3 billion, or 8.7 percent. This level of funding reflects $1.7 billion in Proposition 98 spending above the level that otherwise would have been required by the Proposition 98 guarantee for 2006-07. It also reflects an additional $426 million in spending pursuant to Proposition 49, which by the terms of that Proposition is required to be counted as Proposition 98 spending above the Proposition 98 funding required for 2006-07. The combination of the $1.7 billion and $426 million result in a total Proposition 98 over-appropriation of $2.099 billion for 2006-07.

4. K-12 Education – The 2006-07 Governor's Budget proposes $66.2 billion in spending from all funds on K-12 education, an increase of $4.1 billion from the revised 2005-06 estimate. General Fund expenditures are proposed at $40.0 billion (includes funds provided for prior year settle-up

obligations), an increase of $3.9 billion, or 10.9 percent. Total per-pupil expenditures from all fund sources are projected to be $10,996, an increase of $660, or 6.4 percent.

5. Higher Education – The 2006-07 Governor's Budget proposes General Fund expenditures at $11.2 billion, an increase of $1.1 billion, or 10.5 percent. The 2006-07 Governor's Budget marks the second year of funding for the Higher Education Compact. The Compact was signed in Spring 2004 with both UC and CSU to provide funding stability and preserve educational quality over the following six fiscal years in exchange for improved accountability in a variety of key student performance measures. The 2006-07 Governor's Budget proposes additional funding of $75 million for UC and $54.4 million for CSU so that student fees in 2006-07 will remain at current 2005-06 levels.

6. Health and Human Services – The 2006-07 Governor's Budget proposes $28.4 billion General Fund to be spent on Health and Human Services programs, which is an increase of $1.2 billion, or 4.4 percent, from the revised 2005-06 estimate. This net increase includes, among other things, the following major adjustments: (1) An increase of $47.3 million to bolster state and local capacity to prevent and respond to disease outbreaks and natural or intentional disasters; (2) An increase of $34.2 million to promote and maximize enrollment in Medi-Cal and the Healthy Families Program; (3) Caseload and other workload increases totaling $1.3 billion; (4) CalWORKs reductions of $198.9 million to maintain expenditures at the federally required level of state funding; and (5) Savings of $48.1 million in 2006-07 and over $185 million in 2007-08 by continuing to suspend the pass-through of the January 2007 federal Supplementary Security Income cost-of-living adjustment until July 2008.

7. Transportation Funding – The 2006-07 Governor's Budget includes $1.4 billion to fully fund Proposition 42 in 2006-07 and $920 million for advance payment of a portion of the 2004-05 Proposition 42 loan due in 2007-08 (including interest). Approximately $430 million (including interest) remains to be paid in 2007-08. The 2005 Budget Act assumed repayment of a portion of outstanding transportation loans with $1 billion in bond proceeds derived from certain Indian gaming revenues to specified transportation programs. This transportation funding package will eventually provide $465 million to the State Highway Account, $290 million to the Traffic Congestion Relief Program, $122 million to the Public Transportation Account, and $122 million to cities and counties. There have been several lawsuits that have prevented the bonds from being sold to date, and it is not known when any sale will be possible. See "LITIGATION – Actions Seeking to Enjoin Implementation of Certain Tribal Gaming Compacts" below.

8. Budget Stabilization Account – The 2006-07 Governor's Budget fully funds the transfer of an estimated $920 million to the Budget Stabilization Account (BSA), pursuant to Proposition 58. Half of this amount, or $460 million, will remain in the BSA as a reserve. The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds.

Strategic Growth Plan

The Governor is proposing a comprehensive Strategic Growth Plan, which is the first installment of a 20-year investment in the state's infrastructure in the following five areas: transportation and air quality, education, flood control and water supply, public safety, and court and other public service infrastructure. Specifically, this plan lays out more than $222 billion in infrastructure investments over the first ten years, of which $68 billion will be financed with General Obligation (GO) Bonds, and the remainder will come from a mixture of existing and new funding sources. The GO bonds would be put before the citizens of California over a series of elections between 2006 and 2014 as follows: $25.2 billion in 2006, $10.2 billion in 2008, $18.9 billion in 2010, $8.7 billion in 2012, and $5.0 billion in 2014. The Department of Finance estimates that the increase in debt service costs associated with the Strategic Growth Plan will amount to approximately one percentage point in the state's debt service ratio (annual cost for debt service as a percentage of General Fund revenues) and will keep the debt service ratio below six percent over the next 20 years. In addition, the Governor is proposing a constitutional amendment to prohibit the state from issuing debt that would exceed the 6 percent debt service ratio. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Proposed Constitutional Amendment to Limit Debt Service Costs". The Governor and the Legislature failed to reach agreement on a package of bond measures in time for any bonds to be included on the June 2006 primary election ballot. The parties intend to continue negotiations to permit some bonds to be included on the November 2006 and subsequent ballots.

As part of the Strategic Growth Plan, the Governor is proposing a constitutional amendment to permanently protect Proposition 42 funds for transportation and eliminate the option for future governors and legislatures to suspend the allocation. In addition, the Governor proposes the following cost-saving reforms: (1) legislation to provide authority to use design-build contracting, where the main contractor performs most design as well as construction services under one contract; (2) legislation authorizing design-sequencing, where some construction can begin while design of other elements is being finished; and (3) expanded authority to fund and deliver projects through a variety of public-private partnerships.

LAO Assessments of the 2005 Budget Act and the 2006-07 Governor's Budget

September Report – On September 23, 2005, the Legislative Analyst's Office ("LAO") released a report titled "California Spending Plan 2005-06 – The Budget Act and Related Legislation." In the introductory portion of this report, the LAO wrote:

"Despite improving revenues, California policymakers continued to face significant fiscal challenges in preparing the 2005-06 budget. Although the projected budget shortfall for 2005-06 was considerably smaller than in the three prior years, the state's ongoing structural budget problem remained a major concern....

In our November 2004 fiscal forecast, we estimated that the state faced a year-end shortfall in its 2005-06 General Fund budget of nearly $6.7 billion. We estimated an operating deficit of around $7.3 billion in 2005-06, increasing to $10 billion in 2006-07, as various temporary savings expire and deferred obligations start coming due....These projected shortfalls declined in the subsequent months due to stronger-than-expected revenues realized in the spring of 2005 (related to both improved economic activity and large amnesty-related tax collections). As a result, by the time the budget was adopted, the projected year-end 2005-06 shortfall had narrowed to around $3.4 billion, and the ongoing structural shortfall in 2006-07 had dropped to slightly under $9 billion.

The 2005-06 budget package contains about $5.9 billion in solutions...[which are] expected to eliminate the $3.4 billion budget shortfall and establish a $1.3 billion year-end reserve, while at the same time enabling the state to prepay the $1.2 billion vehicle license fee (VLF) "gap loan" from local governments (due in 2006-07). [T]he solutions fall into four major categories – namely, program savings, fund shifts, loans and borrowing, and revenues from improved tax compliance.

The 2005-06 budget contains roughly $2 billion in ongoing budgetary savings. We estimate these savings, coupled with the prepayment of the VLF gap loan, will reduce the projected 2006-07 operating shortfall between annual current law revenues and expenditures by roughly one third ... to around $6 billion."

November Report – On November 16, 2005, the LAO published a report titled "California's Fiscal Outlook: LAO Projections, 2005-06 Through 2010-11." The following are excerpts from the introductory portion of the report:

"The budget outlook for 2006-07 and beyond has improved considerably over the past year. In last year's California Fiscal Outlook, we projected that the state faced ongoing structural shortfalls peaking at nearly $10 billion in 2006-07. Since that time, California's budget outlook has benefited from both a major increase in revenues and a significant amount of savings adopted in the 2005-06 spending plan...

While the improved fiscal outlook is clearly very good news, the state still faces major challenges in achieving an ongoing balance between revenues and expenditures and getting its fiscal house in order. Even assuming continued steady economic growth, we project that multibillion dollar operating deficits...will persist throughout most of the forecast period. Eliminating these shortfalls will require significant actions. Beyond this, an economic downturn or even sharp slowdown sometime in the next several years would add several billion dollars to the projected shortfalls...

The 2005-06 budget adopted last July included two key features which significantly improved the state's longer-term fiscal picture. First, it contained well over $2 billion in ongoing budgetary savings, mainly in the areas of Proposition 98 and social services. Second, lawmakers allocated most of the unexpectedly strong revenues received last spring to prepay outstanding loans from local government and eliminate the planned sale of additional deficit-financing bonds.

Key changes in our fiscal estimates since the 2005–06 Budget Act was adopted ...include the following:

We estimate that General Fund revenues exceeded the budget estimate by over $1 billion in 2004-05 and prior years combined, and will exceed the budget estimate by $2.8 billion in 2005-06....We also estimate that net General Fund expenditures for 2004-05 and 2005-06 will fall below the 2005-06 Budget Act estimate by $80 million...[W]e estimate the 2005-06 year-end reserve will increase from $1.3 billion assumed in the 2005-06 Budget Act to our revised estimate of $5.2 billion... [M]uch of this reserve will be needed to maintain a balanced budget in 2006-07 [for which LAO estimates a] $4 billion operating shortfall.

Our longer-term revenue and expenditure forecasts...show that the state would continue to face significant operating shortfalls over the forecast period, peaking at $4.3 billion in 2007-08, before declining to $3 billion in 2008-09, $1.7 billion in 2009-10 and $600 million in 2010-11. [The report notes that these estimates do not take into account transfers from the General Fund to the Budget Stabilization Account pursuant to Proposition 58.]"

<u>February Report</u> – On February 22, 2006, the LAO released its annual report "The 2006-07 Budget: Perspectives and Issues." It contained the following summary discussion of the 2006-07 Governor's Budget:

"We believe that the recent strength in personal income tax and corporation tax receipts is indicative of the fact that 2005 tax liabilities, once tabulated, will prove to be even higher in 2005 than assumed in the Governor's budget…. Accordingly, we are projecting that revenues will exceed the budget forecast by $1.3 billion in the current year [2005-06] and $1 billion in 2006-07, or $2.3 billion for the two years combined."

"On the expenditure side, we estimate that General Fund expenditures under the Governor's budget proposal would exceed the administration's estimate by a two-year amount of about $340 million. This is the net effect of higher costs associated with Proposition 98, local mandates and state operations, partly offset by lower spending for Medi-Cal."

“The 2006-07 fiscal year would end with a meaningful reserve [LAO estimated $2.561 billion compared to $613 million in 2006-07 Governor’s Budget], but only because the operating deficit of about $5 billion is more than covered by the $7.6 billion in carry-in reserve funds....[T]he operating shortfalls [annual revenues minus expenditures] would continue under the budget proposal, reaching nearly $4 billion in 2007-08 and nearly $5 billion in 2008-09.”

“Although our fiscal projections reflect our assessment of the most likely fiscal outcomes for the state, it is important to understand that there are several very significant budgetary risks and pressures that lurk beneath our forecasts...[which] could add several billions of dollars to the operating shortfalls during the next several years, were they to materialize. They include: [(1) a steeper economic slowdown due to higher energy costs, a steeper real estate decline or other factors, (2) unfavorable outcome of one or more major lawsuits, and (3) added state costs from the recent federal Deficit Reduction Act.]”

The LAO makes the following statements, in part, as its “Bottom Line”:

“California has benefited greatly from an over $11 billion three-year revenue increase since the 2005-06 budget was enacted; yet, the Governor’s budget plan would still leave the state with major structural budget shortfalls and a large amount of other financial obligations outstanding ….Capitalizing on the opportunity presented by these added revenues is particularly important at this time, given the inherent uncertainties about how long the strong revenue performance the state has been experiencing will last. Accordingly, we recommend that the Legislature reduce the amount of ongoing spending increases proposed in this budget, and either hold more of the unexpected revenues that this frees up in reserves or use them to pay down more of the still-formidable budgetary debt the state owes.”

Publications from the LAO can be read in full by accessing the LAO’s website (www.lao.ca.gov) or by contacting the LAO at (916) 445-4656.

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Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2002–03, 2003–04, and 2004-05, estimated results for fiscal year 2005-06, and projected results (based upon the 2006-07 Governor's Budget) for fiscal year 2006-07.

TABLE 16

Statement of Revenues, Expenditures, And Changes in Fund Balance–General Fund (Budgetary Basis)[(a)] Fiscal Years 2002–03 Through 2006–07 (Millions)

	2002–03	2003–04	2004–05	Estimated[(b)] 2005–06[(c)]	Proposed[(b)] 2006-07[(c)]
Fund Balance–Beginning of Period	$ (2,109.8)	$ (7,536.2)	$ 3,309.4	$ 9,922.7	$7,031.2
Restatements					
Prior Year Revenue, Transfer Accrual Adjustments[(d)]	154.4	2,626.1	3,785.4	(203.4)	--
Prior Year Expenditure, Accrual Adjustments	374.2	512.7	313.7	(85.7)	--
Fund Balance–Beginning of Period, as Restated	$ (1,581.2)	$ (4,397.4)	$ 7,408.5	$ 9,633.6	$7,031.2
Revenues	$68,545.8	$74,149.8	$81,980.0	$87,705.4	$91,977.5
Other Financing Sources					
Economic Recovery Bonds[(e)]	–	11,254.0	–	–	
Transfers from Other Funds	3,289.5	914.8	359.9	(14.0)	(432.7)
Other Additions	143.9	124.9	83.8	–	–
Total Revenues and Other Sources	$71,979.2	$86,443.5	$82,423.7	$87,691.4	$91,544.9
Expenditures					
State Operations	$18,277.6	$19,498.2	$17,966.1[(f)]	$21,249.9	$22,833.5
Local Assistance	59,145.3	58,610.8	61,674.4	67,618.1	72,259.9
Capital Outlay	141.3	348.7	65.1	1,475.7	2,519.1
Unclassified	–	–		(50)	289.3
Other Uses					
Transfer to Other Funds	370.0	279.0	203.9	–[(g)]	–[(g)]
Total Expenditures and Other Uses	$ 77,934.2	$78,736.7	$79,909.5	$90,293.7	$97,901.8
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$ (5,955.0)	$ 7,706.8	$2,514.2	$ (2,602.3)	$(6,356.9)
Fund Balance					
Reserved for Encumbrances	$ 1,037.4	$ 641.4	$ 540.4	$ 521.3	$521.3
Reserved for Unencumbered Balances of Continuing Appropriations[(h)]	996.9	902.1	858.7	423.6	28.8
Unreserved–Undesignated[(i)]	(9,570.5)	1,765.9	8,523.6	6,086.3	124.2
Fund Balance–End of Period	$ (7,536.2)	$ 3,309.4	$9,922.7	$ 7,031.2	$674.3

Footnotes on following page.

Source: Fiscal years 2002-03 to 2004-05: State of California, Office of the State Controller.
Fiscal years 2005-06 and 2006-07: State of California, Department of Finance.

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Annual Financial Statements for the year ended June 30, 2004, incorporated by reference in this APPENDIX A, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2004 fund balance between the two methods.
(b) Estimates are shown net of reimbursements and abatements.
(c) Estimated as of the 2006-07 Governor's Budget, January 10, 2006.
(d) Figure for fiscal year 2003–04 is higher due to a change in account for prior year revenues collected by the Franchise Tax Board ("FTB") for the Voluntary Compliance Initiative revenue. FTB now recognizes audit findings as prior year revenue collected.
(e) Reflects the issuance of economic recovery bonds sufficient to provide net proceeds to the General Fund of $11.254 billion in 2003–04 to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds." $2.012 billion of this amount is budgeted as an expenditure reduction in fiscal year 2004–05.
(f) Reflects General Fund payment offsets from moneys deposited in the Deficit Recovery Fund ($2.012 billion).
(g) "Transfer to Other Funds" is included either in the expenditure totals detailed above or as "Transfers from Other Funds."
(h) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Chapter 1238, Statutes of 1990, amended Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for an expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. Accordingly, the General Fund condition included in the 2006-07 Governor's Budget includes the unencumbered balances of continuing appropriations as a footnote to the statement ($880.7 million in fiscal year 2004-05, $423.6 million in fiscal year 2005-06, and $28.8 million in fiscal year 2006-07). However, in accordance with Government Code Section 12460, the State's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.
(i) Includes Special Fund for Economic Uncertainties ("SFEU"). The Department of Finance generally includes in its estimates of the SFEU and set aside reserves, if any, the items reported in the table under "Reserved for Unencumbered Balances of Continuing Appropriations," and "Unreserved—Undesignated." The Department of Finance estimates a $6.510 billion SFEU balance on June 30, 2006, and projects a $153.0 million SFEU balance on June 30, 2007, based upon the 2006-07 Governor's Budget released on January 10, 2006. In addition to the SFEU, as of June 30, 2007, there is projected to be an additional reserve of $460 million in the Budget Stabilization Account (SBA) available to transfer to the General Fund through statute. The total available reserve, including the BSA, is projected to be $613 million as of June 30, 2007. The BSA was created pursuant to the California Balanced Budget Act (Proposition 58), enacted in 2004.

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Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures for the 2004-05 fiscal year and the 2006-07 Governor's Budget estimates for the 2005-06 and 2006-07 fiscal years.

TABLE 17

Major General Fund Revenue Sources and Expenditures

	Revenues (Millions)			
	Fiscal Years			
Source	**2004–05[(a)] Actual**	**2005-06[(b)] Enacted**	**2005–06[(c)] Revised**	**2006-07[(c)] Proposed**
Personal Income Tax	$42,738	$43,230	$45,493	48,716
Sales and Use Tax	25,759	26,951	27,184	28,295
Corporation Tax	8,670	8,822	9,621	10,024
Insurance Tax	2,233	2,300	2,335	2,340
All Other	2,809[(d)]	3,168[(e)]	3,058[(f)]	2,170[(g)]
Total Revenues and Transfers	$82,209	$84,471	$87,691	$91,545

	Expenditures (Millions)			
	Fiscal Years			
Function	**2004–05[(a)] Actual**	**2005-06[(b)] Enacted**	**2005–06[(c)] Revised**	**2006-07[(c)] Proposed**
K-12 Education	$34,139	$36,583	$36,058	$39,881
Health and Human Services	24,852	27,115	27,260	28,473
Higher Education	9,314	10,217	10,158	11,223
Corrections and Rehabilitation	6,968	7,422	7,658	8,081
Legislative, Judicial and Executive	2,899	3,057	3,147	3,382
Tax Relief[(h)]	665	675	664	671
Resources	1,031	1,356	1,388	1,530
State and Consumer Services	523	562	578	540
Business, Transportation and Housing	369	1,702[(i)]	1,714[(j)]	2,719[(k)]
All Other	(956)[(l)]	1,337[(m)]	1,669[(n)]	1,402[(o)]
Total Expenditures	$79,804	$90,026	$90,294	$97,902

Source: State of California, Department of Finance. Figures in this table may differ from the figures in Table 4; see "Note" to Table 4.

(a) Figures for fiscal year 2004-05, prepared by the Department of Finance, are slightly different than the figures in Table 16, prepared by the State Controller's Office, because of certain differences in accounting methods used by the two offices.
(b) 2005 Budget Act, July 11, 2005.
(c) 2006-07 Governor's Budget, January 10, 2006.
(d) Includes $19 million from Indian gaming revenues and $0 from pension obligation bonds.
(e) Includes $35 million from Indian gaming revenues and $252 million from pension obligation bonds.
(f) Includes $525 million due to the refunding of the tobacco securitization bonds, $25 million from Indian gaming revenues, and $0 from pension obligation bonds.

Footnotes continue on following page.

(g) Includes -$460 million (budgeted as a revenue reduction) transferred to the Budget Stabilization Account to remain in the rainy day fund and $25 million from Indian gaming revenues.
(h) Reflects the elimination of VLF "backfill" payments to local governments.
(i) Reflects $1.313 billion in Proposition 42 transfers from the General Fund to the Transportation Investment Fund.
(j) Reflects $1.345 billion in Proposition 42 transfers from the General Fund to the Transportation Investment Fund.
(k) Reflects $1.406 billion in Proposition 42 transfers from the General Fund to the Transportation Investment Fund and $920 million partial early repayment of the 2004-05 Proposition 42 suspension.
(l) Includes $2.012 billion from the Economic Recovery Bonds as an expenditure reduction.
(m) Reflects reduced expenditures of $308 million due to the anticipated receipt of pension obligation bond proceeds to cover General Fund contributions to pension funds; reflects a $1.2 billion payment to fully repay the amount that local governments lost between July and October 2003 when the Vehicle License Fee offset program was temporarily suspended.
(n) Reflects $1.2 billion to fully repay the amount that local governments lost between July and October 2003 when the Vehicle License Fee offset program was temporarily suspended; assumes no pension obligation proceeds.
(o) Reflects $460 million transfer to the Budget Stabilization Account for early retirement of the Economic Recovery Bonds.

Development of Revenue Estimates

The development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14.

Economic Assumptions

The revenue and expenditure assumptions set forth above have been based upon certain estimates of the performance of the California and national economies in calendar years 2006 and 2007. In the 2006–07 Governor's Budget, the Department of Finance projected that in calendar years 2006 and 2007, the California economy will decelerate slightly but continue to grow at a rate close to the long-run average growth of the State economy.

Broad measures of the national and California economies, such as inflation-adjusted gross domestic product and California personal income and taxable sales, posted solid gains in 2005, even if all three grew somewhat slower than in 2004. Year-over-year growth of real GDP and California personal income in the first three quarters of 2005 and California taxable sales in the first half of 2005 was higher than average yearly growth in the preceding ten years. Also, made-in-California exports continued to grow, but not nearly as quickly as in 2004.

Real GDP grew by 3.5 percent in 2005. In 2004, real GDP grew by 4.2 percent. California personal income was 6.2 percent higher than a year ago in the first three quarters of 2005; in 2004, personal income grew by 6.6 percent. California taxable sales were more than 6 percent higher than a year ago in the first half of 2005; in 2004, taxable sales grew by 8.7 percent. California merchandise exports grew by 6 percent in 2005; in 2004, they grew by 17 percent. High-tech exports fell by 1 percent in 2005, after growing by 15 percent in 2004.

One measure of the state economy's health grew more quickly in 2005 than in 2004. Nonfarm payroll employment grew by 1.6 percent in 2005 after growing by 1 percent in 2004. The improvement in job growth was due primarily to a swing from large job losses to small job gains in government and manufacturing and bigger job gains in professional and business services, which widened the distribution of job gains across major industries. In addition, the state's unemployment rate dropped from an average of 6.2 percent in 2004 to 5.3 percent in 2005, as the number of unemployed persons fell below 1,000,000 for the first time in nearly four years.

Housing permits issuance (number of units) was 2.7 percent lower in 2005 than in 2004. Single-family permits were up about 2.2 percent, while multi-family permits were down by 15 percent. The San Joaquin Valley experienced the biggest gain, both on a unit basis and a percentage basis. Statewide, the dollar value of private nonresidential construction permits rose by 16 percent, with the gains widespread across types of nonresidential buildings, structures, and alterations and additions.

Home sales slowed in California during 2005. In December, sales were down by 15.5 percent from year-ago levels in the nine-county San Francisco Bay Area, 4.5 percent in Southern California, and 9.7 percent in the state as a whole according to DataQuick Information Systems. Annual percentage price increases were smaller than a year ago - mostly in the low to mid teens.

The Department of Finance sets out the following estimates for the State's economic performance in calendar years 2006 and 2007, which were used in predicting revenues and expenditures for the 2006-07 Governor's Budget. Also shown is the Department of Finance's previous forecast for the same calendar years, which was contained in the 2005–06 May Revision.

TABLE 18

Estimates of State's Economic Performance

	For Calendar Year 2006		**For Calendar Year 2007**	
	2005–06 May Revision[(a)]	**2006–07 Governor's Budget[(b)]**	**2005–06 May Revision[(a)]**	**2006–07 Governor's Budget[(b)]**
Non-farm wage and salary employment (000)	15,049	14,914	15,292	15,104
Percent Change	1.7%	1.3%	1.6%	1.3%
Personal income ($ billions)	$1,407	$1,415	$1,487	$1,493
Percent Change	5.8%	5.8%	5.7%	5.5%
Housing Permits (Units 000)	186	197	191	183
Consumer Price Index (percent change)	2.4%	3.6%	2.4%	3.0%

(a) 2005–06 May Revision, May 13, 2005.

(b) Fiscal Year 2006–07 Governor's Budget Summary: January 10, 2006.

Source: State of California, Department of Finance.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2004 (the "Financial Statements") are available. As of June 30, 2002, the State of California has implemented a new financial reporting model, as required by the Governmental Accounting Standards Board ("GASB") in conformity with accounting principles generally accepted in the United States of America. The GASB sets standards of accounting and financial reporting for state and local governments, which have significantly changed the presentation of the financial statements. The Financial Statements consists of an Independent Auditor's Report, a Management Discussion and

Analysis, Basic Financial Statements of the State for the Year Ended June 30, 2004 ("Basic Financial Statements"), and Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the new accounting and financial reporting standards is contained in Note 1 of the Basic Financial Statements.

The Audited Basic Financial Statements of the State for the Fiscal Year ended June 30, 2005 are now expected to be available prior to May 1, 2006. The State Controller reports that they have been delayed because of complications arising from reorganizations of certain state agencies during the past year. As soon as they are available, they will be filed with the appropriate repositories, as well as being available on the website for the State Treasurer. As required by its undertakings for continuing disclosure for previously issued bonds, the state filed unaudited basic financial statements for the fiscal year ended June 30, 2005 with its annual reports which were due on April 1, 2006.

Potential investors may obtain or review a copy of the Financial Statements from the following sources:

1. By obtaining, from any Nationally Recognized Municipal Securities Information Repository, or any other source, a copy of the State of California's Official Statement dated March 29, 2005, relating to the issuance of $218,380,000 State Public Works Board Lease Revenue Bonds (Department of General Services) 2005 Series A (Butterfield State Office Complex) and $51,900,000 of State Public Works Board Lease Revenue Bonds (Department of Health Services) 2005 Series B (Richmond Laboratory, Phase III Office Building). The Financial Statements are printed in full in such Official Statement. No part of the March 29, 2005 Official Statement is incorporated into this document except the Financial Statements.

2. By accessing the internet website of the State Controller (www.sco.ca.gov) and selecting "Publications" and then selecting "State Government Annual Financial Reports," or by contacting the Office of the State Controller at (916) 445-2636.

3. By accessing the internet website of the State Treasurer (www.treasurer.ca.gov) and under the heading "Inside the Treasurer's Office" selecting "Bonds – Public Finance," and then under the heading "Financial Information," selecting "Recent Financial Information" or by contacting the Office of the State Treasurer at (800) 900-3873.

The State Controller's unaudited report of cash receipts and disbursements for the periods of July 1, 2004 through June 30, 2005, and July 1, 2005 to March 31, 2006, are also included as Exhibits to this APPENDIX A and are available on the State Controller's website. In addition, the General Fund Cash Basis Report For the Year Ended June 30, 2005 (unaudited) is available on the State Controller's website.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the Legislative Analyst's Office. The State Controller issues a monthly report on cash receipts and disbursements recorded on the State Controller's records. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by State departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into the Official Statement. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in the Official Statement from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State's Centralized Treasury System are invested by the State Treasurer in the Pooled Money Investment Account ("PMIA"). As of February 28, 2006, the PMIA held approximately $38.2 billion of state moneys, and $16.6 billion invested for about 2,653 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of February 28, 2006, are shown in the following table:

TABLE 19

Analysis of the Pooled Money Investment Account Portfolio*

Type of Security	Amount (Thousands)	Percent of Total
U.S. Treasury	$ 5,481,343	10.0%
Commercial Paper	7,671,527	14.0
Certificates of Deposits	8,660,110	15.8
Corporate Bonds	886,794	1.6
Federal Agency	15,784,981	28.8
Bankers Acceptances	--	0.0
Bank Notes	1,399,993	2.6
Loans Per Government Code	7,247,413	13.2
Time Deposits	7,755,995	14.2
Repurchases	--	0.0
Reverse Repurchases	(99,250)	-0.2
	$54,788,906	100.0%

* Totals may differ due to rounding.

Source: State of California, Office of the State Treasurer.

The state's treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash flow date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of February 28, 2006 was 177 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The State Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amending the Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum and recall processes.

California's Legislature consists of a forty-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Assembly members are limited to three terms in office and Senators to two terms. The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Bureau of State Audits, headed by the State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state and is elected for a four-year term. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Arnold Schwarzenegger	Republican	2003
Lieutenant Governor	Cruz Bustamante	Democrat	1998
Controller	Steve Westly	Democrat	2002
Treasurer	Philip Angelides	Democrat	1998
Attorney General	Bill Lockyer	Democrat	1998
Secretary of State	Bruce McPherson[(a)]	Republican	-
Superintendent of Public Instruction	Jack O'Connell	Democrat	2002
Insurance Commissioner	John Garamendi	Democrat	2002

(a) Confirmed by the Legislature and sworn in as Secretary of State on March 30, 2005.

The current term for each office expires in January 2007. Persons elected to statewide offices are limited to two terms in office (eight years) from the dates shown above. Mr. Garamendi previously served as elected Insurance Commissioner before term limits were enacted. Governor Schwarzenegger may seek re-election in 2006 to one term.

The executive branch is principally administered through eleven major agencies and departments: Business, Transportation and Housing Agency, Child Development and Education Agency, Environmental Protection Agency, Department of Finance, Department of Food and Agriculture, Health and Human Services Agency, Labor and Workforce Development Agency, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs and a new Department of Corrections and Rehabilitation, which took over the functions of the Youth and Adult Correctional Agency as of July 1, 2005. In addition, some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

California has a comprehensive system of public higher education comprised of three segments: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students. Approximately 54,500 degrees were awarded in the 2004-05 school year. Approximately 207,200 full-time students were enrolled at the ten UC campuses and the Hastings College of Law in the 2005-06 school year. (The newest campus, at Merced, opened to graduate students in 2004, and to undergraduates in the fall of 2005.) The California State University System provides undergraduate and graduate degrees to students. Approximately 84,000 degrees were awarded in the 2004-05 school year. About 332,200 full-time students were enrolled at the 23 campuses in the 2005-06 school year. The third sector consists of 109 campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally students may attend community colleges to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. More than 113,000 associate degrees and certificates were awarded in the 2004-05 school year. Over 1.6 million students were enrolled in California's community colleges in the spring of 2005.

Employee Relations

In 2005–06, the state work force is comprised of approximately 330,000 positions, of which approximately 116,000 positions represent employees of institutions of higher education. Of the remaining 214,000 positions, approximately 178,000 are subject to collective bargaining and approximately 36,000 are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. The chosen employee organization has the right to represent its members, except that once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent employees in that unit.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreement is reached, to prepare a memorandum of understanding and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

There are twenty-one collective bargaining units that represent state employees. Two bargaining unit contracts expire in June 2006, six expire in July 2006, two expire in July 2007, and one expires in June 2008. For the remaining ten units, comprising approximately 47 percent of the state workforce, that do not have a signed contract, the terms of the prior agreements remain in effect. The Department of Personnel Administration is continuing to negotiate with these units. The state has not experienced a major work stoppage since 1972. The California State Employees' Association is the exclusive representative for nine of the twenty-one collective bargaining units, or approximately 50 percent of those represented employees subject to collective bargaining. Each of the remaining exclusive representatives represents only one bargaining unit.

ECONOMY AND POPULATION

Introduction

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. In early 2001, California's economy slipped into a recession, which was concentrated in the state's high-tech sector and, geographically, in the San Francisco Bay Area. The economy has since recovered with 480,000 jobs gained between July 2003 and November 2005 compared with 367,000 jobs lost between January 2001 and July 2003. See "CURRENT STATE BUDGET—Economic Assumptions."

Population and Labor Force

The state's July 1, 2005 population of about 37 million represented over 12 percent of the total United States population. California is by far the most populous state in the nation, almost two-thirds larger than the second-ranked state according to the 2000 U.S. Census. California has grown about twice as rapidly as the national population during the last half of the 20th century, averaging about 26% growth for each decade between 1950 and 2000. Although California's growth slowed during the 1990s, and is not expected to match the levels of the earlier decades before 1990, it is still expected to be in the range of 1 to 1.5% annually through at least the end of this decade. Population growth is expected to be about equally due to natural increase (excess of births over deaths) and net migration into the state.

Population growth in the next five years is expected to be largest in the over age 65 category, with above statewide average growth in the working age and college age categories. School age and preschool categories will have lower than statewide average growth, reflecting lower births in the state during the 1990s when the current and near future school age population was born.

California's population is perhaps the most diverse in the nation. As of the 2000 Census, no single ethnic group constituted a majority of the population. It is estimated that within the next 10-15 years, the Latino population will be the largest ethnic group in the state.

California's population is concentrated in metropolitan areas. As of the April 1, 2000 census, 97 percent resided in the 25 Metropolitan Statistical Areas in the state. As of July 1, 2004, the 5-county Los Angeles area accounted for 49 percent of the state's population, with over 17.0 million residents, and the 11-county San Francisco Bay Area represented 20 percent, with a population of over 7.0 million.

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The following table shows California's population data for 1995 through 2004.

TABLE 20

Population 1995-2005[(a)]

Year	California Population	% Increase Over Preceding Year	United States Population	% Increase Over Preceding Year	California as % of United States
1995	31,712,000	0.6%	266,278,393	1.2%	11.9%
1996	31,963,000	0.8	269,394,284	1.2	11.9
1997	32,453,000	1.5	272,646,925	1.2	11.9
1998	32,863,000	1.3	275,854,104	1.2	11.9
1999	33,419,000	1.7	279,040,168	1.2	12.0
2000	34,099,000	2.0	282,193,477	1.1	12.1
2001	34,784,000	2.0	285,107,923	1.0	12.2
2002	35,393,000	1.8	287,984,799	1.0	12.3
2003	35,991,000	1.7	290,850,005	1.0	12.4
2004	36,506,000	1.4	293,656,842	1.0	12.4
2005	37,005,000	1.4	296,410,404	0.9	12.5

(a) Population as of July 1.

Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

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The following table presents civilian labor force data for the resident population, age 16 and over, for the years 1994 to 2005.

TABLE 21

Labor Force 1994-2005
(Thousands)

Year	Labor Force	Employment	Unemployment Rate (%) California	United States
1994	15,271	13,954	8.6%	6.1%
1995	15,264	14,062	7.9	5.6
1996	15,436	14,304	7.3	5.4
1997	15,793	14,781	6.4	4.9
1998	16,167	15,204	6.0	4.5
1999	16,431	15,567	5.3	4.2
2000	16,870	16,034	5.0	4.0
2001	17,150	16,218	5.4	4.7
2002	17,327	16,165	6.7	5.8
2003	17,414	16,224	6.8	6.0
2004	17,552	16,460	6.2	5.5
2005[a]	17,826	16,873	5.3	5.1

(a) Preliminary. Final numbers will be released on March 3, 2006.

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's non-agricultural employment distribution and growth for 1994 and 2004.

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TABLE 22

Payroll Employment By Major Sector
1995 and 2005

Industry Sector	Employment (Thousands) 1995	Employment (Thousands) 2005	% Distribution of Employment 1995	% Distribution of Employment 2005p/
Trade, Transportation and Utilities	2,398.2	2,777.2	19.3%	18.8%
Government				
Federal Government	311.9	246.4	2.5	1.7
State and Local Government	1,795.1	2,153.5	14.5	14.6
Professional and Business Services	1,667.8	2,147.3	13.4	14.5
Educational and Health Services	1,238.9	1,586.7	10.0	10.7
Manufacturing				
Nondurable goods	635.3	552.9	5.1	3.7
High Technology	488.6	402.5	3.9	2.7
Other Durable Goods	591.0	580.4	4.8	3.9
Leisure and Hospitality	1,181.5	1,479.4	9.5	10.0
Financial Activities	742.3	920.4	6.0	6.2
Construction	498.8	904.9	4.0	6.1
Other Services	430.6	509.9	3.5	3.5
Information	415.9	486.2	3.3	3.3
Natural Resources and Mining	26.1	22.9	0.2	0.2
TOTAL NON-AGRICULTURAL	12,442.0	14,770.4	100%	100%

p/ Preliminary – Final numbers will be released on March 3, 2006.

Source: State of California, Employment Development Department.

The following tables show California's total and per capita income patterns for selected years.

TABLE 23

Total Personal Income in California 1995-2004[(a)]

Year	Millions	% Change[(b)]	California % of U.S.
1995	$ 765,806	4.8%	12.4%
1996	810,448	5.8	12.3
1997	860,545	6.2	12.4
1998	936,009	8.8	12.5
1999	999,228	6.8	12.7
2000	1,103,842	10.5	13.0
2001	1,135,304	2.9	12.9
2002	1,147,868	1.1	12.8
2003	1,184,058	3.2	12.8
2004	1,262,454	6.6	12.9

(a) Bureau of Economic Analysis ("BEA") estimates as of September 28, 2005.
(b) Change from prior year.
Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, BEA.

TABLE 24

Per Capita Personal Income 1995-2004[a]

Year	California	% Change[b]	United States	% Change[b]	California % of U.S.
1995	$24,161	4.1%	$23,076	4.1%	104.7%
1996	25,312	4.8	24,175	4.8	104.7
1997	26,490	4.7	25,334	4.8	104.6
1998	28,374	7.1	26,883	6.1	105.5
1999	29,828	5.1	27,939	3.9	106.8
2000	32,464	8.8	29,845	6.8	108.8
2001	32,877	1.3	30,575	2.4	107.5
2002	32,807	-0.2	30,814	0.8	106.5
2003	33,389	1.8	31,487	2.2	106.0
2004	35,172	5.3	33,041	4.9	106.4

(a) BEA's estimates as of September 28, 2005.
(b) Change from prior year.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, BEA.

The following tables show California's residential and non-residential construction.

TABLE 25

Residential Construction Authorized by Permits

Year	Units			Valuation[a]
	Total	Single	Multiple	(millions)
1995	85,293	68,689	16,604	$13,879
1996	94,283	74,923	19,360	15,289
1997	111,716	84,780	26,936	18,752
1998	125,707	94,298	31,409	21,976
1999	140,137	101,711	38,426	25,783
2000	148,540	105,595	42,945	28,142
2001	148,757	106,902	41,855	28,804
2002	167,761	123,865	43,896	33,305
2003	195,682	138,762	56,920	38,968
2004	212,960	151,417	61,543	44,777
2005*	207,154	154,816	52,338	49,969

(a) Valuation includes additions and alterations.

* Preliminary

Source: Construction Industry Research Board

TABLE 26

Nonresidential Construction
(Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
1995	$2,308,911	$ 732,874	$1,050,693	$4,062,273	$ 8,154,751
1996	2,751,925	1,140,574	1,152,443	4,539,219	9,584,161
1997	4,271,378	1,598,428	1,378,220	5,021,792	12,269,818
1998	5,419,251	2,466,530	1,782,337	5,307,901	14,976,019
1999	5,706,719	2,256,166	2,350,213	6,269,194	16,582,292
2000	6,962,031	2,206,169	2,204,754	7,252,004	18,624,958
2001	6,195,368	1,552,047	2,584,321	6,421,551	16,753,287
2002	5,195,348	1,227,754	2,712,681	5,393,329	14,529,112
2003	4,039,561	1,320,222	2,954,039	5,601,117	13,914,939
2004	5,105,541	1,456,283	3,100,982	6,026,567	15,689,373
2005*	5,811,697	1,672,490	3,798,914	6,915,194	18,198,295

* Preliminary

Source: Construction Industry Research Board

The following table shows changes in California's exports for the period from 1996 through 2004.

TABLE 27

Exports Through California Ports
(Millions)

Year	Exports[(a)]	% Change[(b)]
1996	$124,120.0	6.2%
1997	131,142.7	5.7
1998	116,282.4	-11.3
1999	122,092.8	5.0
2000	148,554.6	21.7
2001	127,255.3	-14.3
2002	111,340.1	-12.5
2003	113,550.7	2.0
2004	123,039.2	8.4

(a) "Free along ship" Value Basis.
(b) Change from prior year.

Source: U.S. Department of Commerce, Bureau of the Census

LITIGATION

The state is a party to numerous legal proceedings. The following are the most significant pending proceedings, as reported by the Office of the Attorney General. See "LITIGATION" in the main body of the Official Statement.

Challenge Seeking Payment to Teachers' Retirement Board

In May 2003, the Legislature enacted legislation (Chapter 6, Statutes of 2003–04, First Extraordinary Session, Senate Bill No. 20, "SBX1 20") that deferred the payment of $500 million to CalSTRS's Supplemental Benefit Maintenance Account ("SBMA"). SBX1 20 also establishes an appropriation of an amount not to exceed $500 million, adjusted by the actual rate of return to funds in the SBMA, in 2006 and every four years thereafter, for the purpose of funding the SBMA. The actual amount of such appropriation, if any, will be determined following a report by the CalSTRS managing board that the funds in the SBMA will be insufficient in any fiscal year before July 1, 2036, to provide certain payments to CalSTRS members, and the certification of the amount of any such appropriation by the State's Director of Finance. On October 14, 2003, the CalSTRS board and certain CalSTRS members filed a complaint in the Sacramento County Superior Court as *Teachers' Retirement Board, as Manager of the California State Teachers' Retirement System, et al. v. Tom Campbell*, *Director of California Department of Finance, and Steve Westly, California State Controller* (Case No. 03CS01503). This lawsuit seeks, primarily, a writ of mandate compelling the State Controller to transfer funds from the State's General Fund to the SBMA in an amount equal to the continuing appropriation, as it existed prior to the enactment of SBX1 20 ($500 million plus interest). It also seeks injunctive and declaratory relief to the same effect. The Superior Court granted Plaintiffs' motion for summary adjudication. The court declared SBX1 20 unconstitutionally impairs CalSTRS members' vested contractual rights. The court ordered the issuance of a peremptory writ of mandate commanding the State Controller to transfer $500 million from the General Fund to the SBMA. The judgment will include an award of interest in an as yet unknown amount at the rate of 7 percent (7%) per annum both pre- and post-judgment. However, because the Legislature has not appropriated funds to pay such interest, the Superior Court cannot, and did not, compel the payment of any pre- or post-judgment interest. The state has appealed the decision, and plaintiffs and the intervening California Retired Teachers' Association have filed cross-appeals.

Tax Refund Cases

Six pending cases challenge the Franchise Tax Board's treatment of proceeds from the investment of cash in short-term financial instruments, and the resulting impact on the apportionment of corporate income to the corporation's California tax obligation. In *General Motors Corp. v. Franchise Tax Board*, the California Supreme Court has granted General Motors' petition for review of the appellate court's affirmation of a ruling in favor of the Franchise Tax Board on this issue (*General Motors Corp. v. Franchise Tax Board*, Case No. S127086). *Toys "R" Us, Inc. v. Franchise Tax Board* is pending in the Court of Appeal, Third Appellate District (Case No. C045386). The trial court in *Toys "R" Us* ruled in favor of the *Franchise Tax Board* on this issue. In April 2006, the Court of Appeal ruled in favor of the Franchise Tax Board. *Montgomery Ward LLC v. Franchise Tax Board* is pending in the San Diego Superior Court (Case No. 802767), and *Colgate-Palmolive v. Franchise Tax Board* is pending in the Sacramento County Superior Court (Case No. 03AS00707); the *Colgate* matter has been stayed, pending the Supreme Court's decision in General Motors. On February 25, 2005, the Court of Appeal, First Appellate District issued an unpublished opinion in *Microsoft Corporation v. Franchise Tax Board* (Case No. S133343) in which the court ruled in favor of the *Franchise Tax Board*. On June 8, 2005, the California Supreme Court granted review. Since review has been granted, the First Appellate District's decision is not final. On July 28, 2005, the Court of Appeal, First Appellate District issued an unpublished opinion in *The Limited Stores, Inc. and Affiliates v. Franchise Tax Board* (Case No. A102915) upholding the judgment entered in favor of the Franchise Tax Board. On October 26, 2005, the California Supreme Court granted review but deferred further action in this case pending disposition of the *General Motors* and *Microsoft* cases. Other taxpayers have raised this same issue in administrative actions. A final decision in favor of any of these plaintiffs could result in tax refunds to similarly situated taxpayers in an amount exceeding $600 million, with a potential future annual revenue loss of $85 million. The state is vigorously litigating this issue.

Also in *General Motors Corp v. Franchise Tax Board* (discussed above, Case No. S127086), the California Supreme Court granted the taxpayer's petition for review to determine whether the Franchise Tax Board's practice of allowing tax credits on an entity basis rather than to a unitary business is correct. The case is fully briefed and is awaiting the scheduling of oral argument by the California Supreme Court. A decision in favor of the taxpayer could result in the refund of taxes in excess of $300 million for prior years and an ongoing reduction in tax revenues of approximately $80 million.

Two pending cases challenge the Franchise Tax Board's LLC fees imposed by Revenue and Taxation Code section 17942. In *Northwest Energetic Services, LLC v. Franchise Tax Board* (San Francisco Superior CGC-05-437721) plaintiff seeks a refund of fees, interest and penalties paid for 1997-2001, and in *Ventas Finance I, LLC v. Franchise Tax Board* (San Francisco Superior Court 05-440001), plaintiff seeks a refund for 2001-2003. In both cases the plaintiffs allege that section 17942 is unconstitutional on its face and as applied because it discriminates against interstate commerce and violates the Due Process and Equalization clauses. In the alternative, the plaintiffs also allege that the Franchise Tax Board misinterprets section 17942 and that section 17942 is an improper exercise of the state's police powers. A final decision in favor of these plaintiffs applied to all taxpayers similarly situated could result in loss of annual revenue in excess of $250 million and potential refunds exceeding $1 billion. In the *Northwest* case, the trial court has issued a proposed decision in favor of the plaintiffs. The judgment has not yet been filed and no decision has been made as to whether the Franchise Tax Board will appeal.

Environmental Matters

In a federal Environmental Protection Agency ("U.S. EPA") administrative abatement action entitled *In the Matter of: Leviathan Mine, Alpine County, California, Regional Water Quality Control Board, Lahontan Region, State of California* (U.S. EPA Region IX CERCLA Docket No. 00-16(a)), the state, as owner of the Leviathan Mine, is a party through the Lahontan Regional Water Quality Control Board ("Board"). Also a party is ARCO, the successor in interest to the mining company that caused certain pollution of the mine site. The Leviathan Mine site is listed on the U.S. EPA "Superfund" List, and both remediation costs and costs for Natural Resource Damages may be imposed on the state. The alleged bases for the state's liability are the state's ownership of the mine site and the terms of a 1983 settlement agreement with ARCO. The Board has undertaken certain remedial action at the mine site, but the U.S. EPA's decision on the interim and final remedies is pending. ARCO has filed several state law claims against the State with the California Victim Compensation and Government Claims Board (an administrative agency with which certain claims must be filed as a prerequisite to litigation seeking damages against the state which was formerly named the Board of Control, the "Government Claims Board"). Litigation on these claims has been tolled by agreement among the parties until October 1, 2006. It is possible these matters could result in a potential loss to the state in excess of $400 million.

In *Carla Clark, et. al. v. City of Santa Rosa, et. al* (Sonoma County Superior Court, Case No. SCV-227896), 32 plaintiffs who own property or live in Santa Rosa brought a toxic tort case alleging that water wells supplying water to their homes were contaminated by carcinogenic chemicals. The state is sued under a mandatory duty theory premised on an alleged violation of Proposition 65 (The Safe

Drinking Water and Toxic Enforcement Act of 1986). Plaintiffs claim property damage, a variety of physical and psychological maladies including birth defects, medical monitoring costs and damages for fear of cancer. Plaintiffs claim damages exceeding $400 million.

Energy-Related Matters

In *People v. ACN Energy, Inc., et al.* (Sacramento County Superior Court, Case No. 01AS05497), the court is considering whether and to what extent compensation is due to market participants which have claimed compensation as a result of the Governor's issuance of executive orders, under the California Emergency Service Act, "commandeering" power purchase arrangements held by Pacific Gas & Electric Company ("PG&E") and Southern California Edison ("SCE"), referred to as "block forward contracts." The California Power Exchange, PG&E and other market participants have filed actions for inverse condemnation, recovery under the Emergency Services Act and other causes of action, which are pending in Sacramento County Superior Court, Judicial Council Coordination Proceeding No. 4203. In an administrative proceeding before the Government Claims Board (which was dismissed on procedural grounds), the California Power Exchange stated claims for "commandeering" the block forward contracts in the amount of approximately $1 billion. The state contends it is not liable for damages as a result of these orders, nor for compensation for inverse condemnation, and that any damages are offset by payments made by the Department of Water Resources for electricity received under the "commandeered" block forward contracts.

Escheated Property Claims

In three pending cases, plaintiffs claim that the State Controller has a constitutional and statutory duty to give notice prior to the time the State Controller sells property that has escheated to the state (in these cases, shares of stock): *Lusby-Taylor v. Westly* (U.S. Court of Appeals, Ninth Circuit, Case No. 02-16511); *Porcile v. Westly* (Los Angeles County Superior Court, Case No. BC288429); and *Suever v. Westly* (U.S. Court of Appeals, Ninth Circuit, Case No. 04-15555). The plaintiffs also claim that the State Controller failed to comply with statutory notice requirements when it first received property that had escheated to the state. The plaintiffs seek damages, which certain plaintiffs have articulated as being in the amount of the difference between the amount they were paid for the stock upon its sale, and either the current value of the stock or the highest market value of the stock between the date the State Controller sold the stock and the present. The state is vigorously defending all of these actions. The *Porcile* case has been dismissed, but prior to dismissal, it was coordinated with two other actions that raise similar claims, *Meyer v. Westly* (Los Angeles County Superior Court, Case No. BC310304) and *Browne v. Westly* (Sacramento County Superior Court, Case No. 04AS02570). The coordinated action is being litigated in the state trial court. The state prevailed in the federal trial court in *Suever* on Eleventh Amendment immunity grounds, but the Ninth Circuit reversed and remanded the case to the federal trial court. *Lusby-Taylor* has been stayed by the federal trial court pending the Ninth Circuit's consideration of an appeal from the trial court's denial of plaintiffs' motion for a preliminary injunction. The Ninth Circuit has held that the Eleventh Amendment bars claims for damages against the defendants in federal court. If one or more of the state court cases is certified as a class action and the class ultimately prevails on the damages claim, damages for the class could be in excess of $500 million. All of these cases are styled as class actions, though no class has yet been certified in any of the cases. The state has ultimately prevailed in two cases in which plaintiffs also claimed that the State Controller's unclaimed property notice practices were unconstitutional and failed to meet statutory requirements: *Fong v. Westly* (2004) 117 Cal. App. 4th 841 and *Harris v. Westly* (2004) 116 Cal. App. 4th 214.

In three pending cases, plaintiffs claim that the State Controller has an obligation to pay interest on private property that has escheated to the state, and that failure to do so constitutes an unconstitutional taking of private property: *Morris v. Westly* (Los Angeles County Superior Court, Case No. BC310200);

Trust Realty Partners v. Westly (Sacramento County Superior Court, Case No. 04AS02522); and *Coppoletta v. Westley* (Sacramento County Superior Court (Case No. 05439933). The *Trust Realty Partners* lawsuit focuses on the state's elimination of interest payments on unclaimed property claims (Code of Civil Procedure Section 1540, subdivision (c), as amended effective August 11, 2003, "CCP 1540"), and the *Morris* lawsuit challenges whether the state's custodial use of escheated funds entitles the claimant to constructive interest and/or actual interest that was earned while the property is in the state's custody. The *Morris* case seeks a class action determination, and identifies a purported class that could be interpreted to include all persons or entities whose property has been taken into custody by the state. On behalf of the articulated class, the plaintiff in *Morris* seeks a declaration that failure to pay interest is an unconstitutional taking and, among other things, an injunction restraining the State Controller from pursuing the practices complained of in the complaint. The *Trust Realty Partners* case is not styled as class actions suit, but in addition to seeking general and special damages in a sum according to proof at trial, the case seeks a common fund recovery and an injunction restraining the State Controller from engaging in the acts alleged in the complaint. The *Coppoletta* case raises issues analogous to those in *Morris* and also asks that the unclaimed property law be construed as creating a trust for the benefit of the true owner. If the *Morris* case ultimately prevails as a class action, or the injunctions prayed for in the *Trust Realty Partners* cases are issued and upheld, or if the issues raised in any of these cases require the State Controller to pay interest on escheated property or to manage unclaimed property as a trust for the benefit of the true owners, as the plaintiffs allege is required by law, costs to the state could be in excess of $500 million.

Actions Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), a proposed class action, plaintiffs seek damages for alleged violations of prison visitors' rights resulting from the Department of Corrections and Rehabilitation's use of a body imaging machine to search visitors entering state prisons for contraband. This matter has been certified as a class action. The superior court granted final judgment in favor of the state. Plaintiffs are expected to appeal. If a court were to revive the damages claims and award damages pursuant to the California Civil Code for every use of the body-imaging machine, damages could be as high as $3 billion.

Two pending cases involve due process constitutional challenges to an individual being placed on the state's child abuse central index prior to the conclusion of a noticed hearing: *Burt v. County of Orange, et al.* (Orange County Superior Court, Case No. 02CC10491) and *Gomez v. Saenz, et. al.* (Los Angeles County Superior Court, Case No. BC 284896). The Court of Appeal in *Burt* said that before a person is placed on the child abuse central index, that person is entitled to a hearing. However, the appellate court did not decide the issue of what type of hearing would be sufficient. That issue is the subject of the current activity at the trial court. Depending on the type and scope of the hearing that the trial court might order, and the number of individuals currently on the index that might be entitled to a hearing prior to remaining on the index, the costs to the State related to conducting these hearings could be in excess of $500 million.

The plaintiff in *Gilbert P. Hyatt v. FTB* (State of Nevada, Clark County District Court, A382999) was subject to an audit by the Franchise Tax Board involving a claimed change of residence from California to Nevada. Plaintiff filed a tort action in the State of Nevada alleging a number of separate torts involving privacy rights and interference with his business relationships arising from the Franchise Tax Board's audit. A Nevada jury trial is currently scheduled to commence in August 2006. Plaintiff will probably seek damages exceeding $500 million. The state is vigorously contesting this action.

Action Seeking a Cost of Living Adjustment for CalWORKs Recipients

The case of *Juana Raquel Guillen, et al. v. Schwarzenegger, et al.* is currently pending before the Court of Appeal (First Appellate District, Division 3; Case No. A106873). The trial court decision on appeal in this case determined that Governor Schwarzenegger's executive order in November 2003, which reduced the Vehicle License Fee charged to vehicle owners and increased the corresponding Vehicle License Fee offset to local governments (See "STATE FINANCES—Local Governments—Vehicle License Fee"), acted as an "increase in tax relief", which, by statute, triggers an upward cost of living adjustment for recipients of CalWORKs program benefits. The petitioners seek a cost of living adjustment, beginning with fiscal year 2003–04. The estimated cost of the state of a final, unappealable determination consistent with the determination of the trial court, is now estimated to be approximately $350 million.

Actions Seeking Program Modifications

In the following cases, plaintiffs seek court orders or judgments that would require the state to modify existing programs and, except as specified, do not seek monetary damages. Nevertheless, a judgment against the state in any one of these cases could require changes in the challenged program that could result in increased programmatic costs to the state in a future fiscal year in excess of $250 million. Alternatively, in some circumstances, it may be possible that a judgment against the state could be addressed by legislative changes to the program that would cost less.

The matter of *Conlan v. Bonta* (First Appellate District, Case No. A106278) followed a prior appellate court decision determining that the state's Medi-Cal program violates federal law because the program fails to promptly reimburse medical payments made by patients within the 90-day window prior to submitting an application for Medi-Cal benefits. The state's Medi-Cal program relies on Medi-Cal providers to reimburse beneficiaries for out-of-pocket expenses paid during this retroactive "reimbursement window" period. On remand following this appellate decision, the trial court ordered the Department of Health Services to develop a compliance plan to implement the appellate decision. Since that time the matter has gone back to the appellate court for further direction. The Department of Health Services is continuing to take steps to implement the appellate court's decision. While the impact of the cost of complying with the trial court's plan for reimbursement is unknown, certain estimates of the costs of the administrative due process procedures required by the court, when combined with the cost of reimbursements that the Department of Health Services now believes may not be eligible for federal off-set, may be in excess of $250 million.

The following cases seek reforms to state programs for the treatment of institutionalized disabled persons. Some rough estimates suggest the financial impact of a judgment against the state defendants in any of these cases could be as high as $1 billion per year in programmatic costs going forward. The state is vigorously defending these actions.

In *Stephen Sanchez, et al. v. Grantland Johnson, et al.* (U.S. Court of Appeals, Ninth Circuit, Case No. 04-15228), the plaintiffs appealed a decision by the U.S. District Court dismissing plaintiffs' class action seeking declaratory and injunctive relief. The plaintiffs sought relief, alleging, in part, that provider rates for community-based services for developmentally disabled individuals are discriminatory under the ADA, and violate the Social Security Act, Civil Rights Act and the Rehabilitation Act, because they result in unnecessary institutionalization of developmentally disabled persons. The Ninth Circuit upheld the District Court's judgment finding that California has a comprehensive plan for deinstitutionalization of the developmentally disabled, and that plaintiffs do not have a right to sue California regarding Medi-Cal rates. Plaintiffs have filed petitions for rehearing en banc, which were denied by the Ninth Circuit.

In *Capitol People First v. Department of Developmental Services* (Alameda County Superior Court, Case No. 2002-038715) a consortium of state and national law firms and public-interest groups brought suit against the Department of Finance, California Department of Developmental Services and California Department of Health Services, alleging violations of the Lanterman Act, the ADA, and section 504 of the Rehabilitation Act by defendants needlessly isolating thousands of people with developmental disabilities in large facilities. The case seeks sweeping reforms, including requiring the state to offer a full range of community-based services.

Actions Seeking Medi-Cal Reimbursements

Two cases, each entitled *California Association of Health Facilities ("CAHF") v. Department of Health Services ("DHS")* have been consolidated in the First District Court of Appeal (Case Nos. 03-425819 and 02-415443). CAHF, which represents approximately 1400 skilled-nursing and intermediate-care facilities, filed two separate cases alleging that the Medi-Cal reimbursement rates paid by DHS to providers for, respectively, the 2001-2002 and 2002-2003 rate years were too low. The superior court sustained DHS's demurrers in both cases and entered judgment for DHS. CAHF'S appeal has been fully briefed and the parties are awaiting notification of a date for oral argument. A final decision adverse to DHS in both of the consolidated cases could result in reimbursement costs exceeding $250 million.

Based upon its ruling in *Sanchez v. Johnson* (see above discussion under "Actions Seeking Program Modifications" – the case entitled *Stephen Sanchez, et al. v. Grantland Johnson, et al.* (U.S. Court of Appeals, Ninth Circuit, Case No. 04-15228)), the U.S Court of Appeal, Ninth Circuit ruled in the consolidated actions of *California Medical Association v. Bonta* (Case No. 04-15532; U.S.D.C., E.D. Cal., Case No. CIV-S-03-2336 DFL PAN) and *Clayworth v. Bonta*. (Case No. 04-15498; U.S.D.C., E.D. Cal., Case No. CIV-S-03-2110 DFL PAN) that neither Medi-Cal recipients nor providers had a private right under 42 U.S.C. section 1983 to challenge California's compliance with section 1396a(a)(30)(A) of the Medicaid Act. Plaintiffs are Medi-Cal providers, provider associations, and beneficiaries who challenge the legality of a five-percent reduction in Medi-Cal reimbursement rates that became effective January 1, 2004. The statute by which the reduction was effected applies both to Medi-Cal fee-for-service providers including physicians, dentists, and pharmacists, and to managed care health plans. Previously, at the district court, plaintiffs obtained a preliminary injunction enjoining DHS from implementing the reduction to the fee-for-service system but failed to have the injunction extended to the managed care setting. The Ninth Circuit's decision reverses the trial court's ruling that (1) Medi-Cal beneficiaries have a private right of action under the Medicaid Act, and (2) DHS failed to conduct a principled analysis to ensure that the payment reductions would not adversely affect "quality of care" and "equal access" to health care in violation of section 30 (A) the Medicaid Act. The time to file a writ of certiorari with the United States Supreme Court expired on February 28, 2006. The Ninth Circuit's decision is now final and avoids increased reimbursement costs exceeding $400 million per year.

Actions to Increase Amount of State Aid for Foster or Adopted Developmentally Disabled Dependent Children

Ten pending class action lawsuits challenge the amount of aid provided by the state for the care of dependent children (either in foster care or adopted) who have also been determined to be developmentally disabled by a regional center. These cases have been coordinated *Butler v. Department of Social Services*, (Los Angeles Superior Court, Case No. BC329695). Specifically, plaintiffs assert that they were entitled to, but did not receive, the Alternative Residential Model (ARM) rate (also known as dual agency rate) but have instead been receiving the standard AFDC-FC (foster care) rate and/or the AAP (adoption assistance program) rate. A final decision in favor of these plaintiffs could exceed $450 million. The state is vigorously litigating this issue.

Local Government Mandate Claims and Actions

In a test claim filed by the County of San Bernardino, now pending before the Commission on State Mandates (the "Commission") (Medically Indigent Adults, 01-TC-26 County of San Bernardino, Claimant, Statutes 1982, Chapters 328 and 1594), the Commission is being asked to determine the costs incurred by the county to provide state-mandated care of medically indigent adults ("MIAs"). The amount demanded in the claim for un-reimbursed costs for fiscal year 2000-2001 is just over $9.2 million. The County of San Bernardino's test claim poses a potential for a negative impact on the General Fund in the amount of the un-reimbursed costs for all similarly situated county claimants for a period of years, as determined by the Commission. Certain estimates of the annual cost of the services rendered by all counties to MIAs exceed $4 billion. How much of that will be determined to be "un-reimbursed" to the counties by the state is unknown. In recent years, the counties have received approximately $1 billion annually in vehicle license fee revenue and $410 million annually in sales tax revenue to fund various public health programs, which include the programs that provide services to MIAs. The state law that authorized the transfer of the vehicle license fee portion of this revenue to the counties and the authority to transfer the revenue to the counties were automatically repealed as a result of a provision of State law, which was triggered as a result of a final decision (*County of San Diego v. Commission on State Mandates, et al.* (1997) 15 Cal. App. 4th 68; petition for review denied by the California Supreme Court) that awarded the County of San Diego un-reimbursed costs for medical services rendered to MIAs. Various regulatory and statutory steps have been and are being taken to address this reduction in revenues.

Two lawsuits are pending that assert that the state's practice in recent years of appropriating $1,000 for certain state-mandated programs, to be divided among all 58 counties, and deferring repayment of the balance, violates the State Constitution. These lawsuits were consolidated in San Diego County Superior Court *(County of San Diego v. State of California, et al.* (Case No. GIC 825109) and *County of Orange v. State of California, et al.* (Case No. GIC 827845)). These plaintiff counties are seeking full payment for the un-reimbursed costs of implementing a variety of programs over the last ten years. The County of San Diego has alleged un-reimbursed costs in excess of $40 million through fiscal year 2003–04 for a variety of programs. The County of Orange has alleged in excess of $116 million for un-reimbursed state-mandated costs. The effects of a final determination by an appellate court that the state is required to reimburse the counties now in an amount equal to the previously unreimbursed state mandated costs, if applied to each of California's 58 counties, could result in costs in excess of $1.5 billion for existing un-reimbursed mandates.

Following a trial, the court's Statement of Decision finds that the counties are entitled to a declaratory judgment regarding the amounts owed, and a writ of mandate commanding the state to comply with Government Code section 17617 by making equal annual payments to the counties over the 15-year term currently prescribed by statute, or a shorter period should the statute be amended. Final judgment has not yet been entered. An appeal will likely follow.

Actions Seeking to Enjoin Implementation of Certain Tribal Gaming Compacts

In June 2004, the state entered into amendments to tribal gaming compacts between the state and five Indian Tribes (the "Amended Compacts"). Those Amended Compacts are being challenged as described below. An unfavorable decision to the state in either of the cases described below (or in any future litigation relating to the Amended Compacts) could eliminate $35 million of additional revenues in fiscal year 2005-06 anticipated to result from the Amended Compacts, and could delay or impair the state's ability to sell a portion of the revenue stream anticipated to be generated by these Amended Compacts. The State anticipates using the proceeds of that sale to repay existing internal borrowings of transportation funds. See "CURRENT STATE BUDGET—Proposed Fiscal Year 2006-07 Budget–Transportation Funding."

In *Rincon Band of Luiseno Mission Indians of the Rincon Reservation v. Schwarzenegger, et al.* (U.S. District Court, Case No. 04 CV 1151 W (WMc)) the plaintiff (the "Rincon Band"), a federally recognized Indian Tribe, alleges, in primary part, that a compact entered into between the Rincon Band and the state in 1999, is part of a statewide regulatory framework that limits gaming devices and licenses on non–Indian lands for the stated goal of promoting tribal economic development. The plaintiff further alleges that the Amended Compacts would materially alter these protections, and as such, would constitute an unconstitutional impairment of the Rincon Band's 1999 compact. The complaint filed by the Rincon Band seeks, among other things, an injunction against the implementation of the Amended Compacts. It also raises other breach of compact claims. The District Court denied plaintiff's motion for injunctive relief, and dismissed the complaint on a procedural basis as to the impairment claims and on lack of jurisdiction as to the breach of compact claims. The District Court granted Plaintiff's request for re-consideration in part, but dismissed all but four claims that the state failed to negotiate a compact amendment with the Rincon Band in good faith. The injunctive relief denied by the court remains subject to appeal. The State filed a motion for certification and entry of a separate judgment with respect to the four claims that the District Court ordered dismissed including the impairment of compact claims. The District Court granted the State's motion and entered final judgment from which Rincon filed notice of appeal (U.S. Court of Appeals, Ninth Circuit, Case No. 06-055259).

California Commerce Casino, Inc., et al. v. Schwarzenegger, et al. (Los Angeles Superior Court, Case No. BS097173) is an action brought by the owner of a card room and an individual plaintiff and petitioner, challenging the Legislature's ratification of the Amended Compacts, which was done through urgency legislation (Statutes 2004, Chapter 91; "Chapter 91"). Plaintiffs and petitioners allege that Chapter 91 violates a provision of the California Constitution, which bars the grant of vested rights or franchises in an urgency measure, and allege a variety of special privileges and vested rights and interests purportedly created by Chapter 91. The complaint also alleges that Chapter 91 violates provisions of the California Constitution which prohibit certain borrowings to fund a year–end state budget deficit; and constitutes an unconstitutional attempt to contract away the state's police power. Plaintiffs and petitioners seek an injunction restraining the implementation of Chapter 91; a decision prohibiting the implementation of Chapter 91; and a declaration that Chapter 91 is unconstitutional. Defendant's filed a demurrer to the complaint, which was granted, without leave to amend, on October 25, 2005. In granting the demurrer, the court found that: (1) all nine claims were barred by the 60 day statute of limitations in AB 687 and (2) the plaintiffs failed and, because of sovereign immunity, were not able to name the five affected tribes as necessary and indispensable parties. The court dismissed the case with prejudice; and plaintiffs have appealed this decision.

Hollywood Park Land Co., et al. v. Golden State Transportation, et al. (Sacramento Superior Court, Case No. 06AS00166) is a reverse validation action brought by various horse racetrack interests, challenging validity of the proposed issuance of tribal gaming bonds. The substance of the case is identical to *California Commerce Casino, Inc., et al. v. Schwarzenegger, et al.* described in the paragraph above, *("Commerce Casino")* . Specifically, this case claims that the bonds would be invalid because they allege the Legislature improperly ratified the tribal compact amendments. They also allege the compacts unconstitutionally contract away the State's police power and that the bonds would violate Proposition 58. Plaintiffs have also sought injunctive and declaratory relief. Validation actions require a three weeks of publications in various newspapers before the court obtains jurisdiction to hear the case. The court is expected to have jurisdiction on or around March 24, 2006. The *Commerce Casino* plaintiffs filed a notice of appearance in this case contesting the validity of the bonds and bond documents.

Matter Seeking Validation of Pension Obligation Bonds

The Legislature enacted the California Pension Restructuring Bond Act of 2004 (Government Code sections 16940 et seq.), which authorized the Pension Obligation Bond Committee (the "Committee") to issue bonds to fund all or a portion of the state's pension obligation in any two fiscal years. Pursuant to that authorization, the Committee authorized the issuance of bonds in an amount not to exceed $960 million to pay a portion of the state's pension obligation for fiscal year 2004–05. The Committee also resolved to seek court validation of the bonds and the indenture pertaining to the bonds pursuant to a validation process established by Code of Civil Procedure Sections 860 *et seq.* On October 22, 2004, the Committee filed *Pension Obligation Bond Committee v. All Persons Interested in the Matter of the Validity of the State of California's Pension Obligation, etc.* (Sacramento County Superior Court, Case No. 04AS043032994). A public interest group filed an answer, and the trial was held on October 13, 2005. The court's final order and ruling dated November 15, 2005, found that the bonds were not valid under the state's debt limit. The Committee has filed notice of appeal. The state will not be able to issue pension obligation bonds until this matter is finally resolved.

Prison Healthcare Reform

Plata v. Schwarzenegger (U.S. District Court case no. C-01-1351 THE) is a class action regarding all prison medical care in the state. Plaintiffs alleged that the state was not providing constitutionally adequate medical care as required by the Eighth Amendment to the U.S. Constitution. The case was settled in 2002, but the federal court retained jurisdiction to enforce the terms of a stipulated judgment. The judgment set up a team of experts to evaluate the adequacy of the medical care delivery system and propose solutions to fulfill the state's obligations to plaintiffs under the Eighth Amendment to the U.S. Constitution. On June 30, 2005, the district court ruled from the bench that he is appointing a receiver to run and operate the approximately $750 million adult health care delivery system (excluding mental health and dental care) of the California Department of Corrections and Rehabilitation ("CDCR"), affecting approximately 32 prisons throughout the state (excluding Pelican Bay State Prison). On October 3, 2005, the district court issued two orders: (1) Findings of Fact and Conclusions of Law Re: Appointment of Receiver; and (2) Order Appointing Court Expert to "assist the Court in identifying discrete, urgently needed, remedial measures," including providing clinical staff at those institutions with the greatest immediate need, pending the appointment of a receiver. The Court-appointed correctional expert issued a report to the Court, which the Court adopted, regarding interim measures pending the appointment of the receiver; including salary increases and recruitment and retention differentials to address immediate needs. The Court appointed a receiver in February 2006, who will begin official duties in mid-April 2006. In the interim, the Court issued an order granting the Court-appointed correctional expert powers to address CDCR's health care contracts and CDCR's death review process. At this time, it is unknown what financial impact such an unprecedented decision would have on the state's General Fund.

Action Seeking Recalculation of Proposition 98 Minimum Funding Guarantee

On August 8, 2005, a lawsuit titled *California Teachers Association et al v. Arnold Schwarzenegger et al.* (Sacramento County Superior Court, Case No. 05CS01165) was filed. Plaintiffs - California Teachers Association, California Superintendent of Public Instruction Jack O'Connell, and various other individuals - allege that the California Constitution's minimum school requirement was not met in fiscal years 2004-05 and 2005-06. Plaintiffs allege an underfunding of approximately $3.1 billion for the two fiscal years. Plaintiffs seek a writ of mandate requiring the state to recalculate the minimum-funding guarantee in compliance with Article XVI, Section 8 of the California Constitution and declaratory relief finding that the State failed to appropriate sufficient funds to comply with the minimum funding requirement.

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-purchase bonds, and authorized and outstanding state revenue bonds. For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the State to pay principal and interest on the bonds from the General Fund.

"Special Revenue Fund bonds" also known as "Economic Recovery Bonds," are "self liquidating" general obligation bonds which are primarily secured by a pledge of a one-quarter cent statewide sales and use tax deposited in the Fiscal Recovery Fund. Debt service payments are made directly from the Fiscal Recovery Fund and not the General Fund. The Special Revenue Fund bonds are also general obligations of the state to which the full faith and credit of the state are pledged to the punctual payment of the principal of and interest thereon. Pursuant to the documents governing the Economic Recovery Bonds, the state was required to use approximately $273 million of surplus revenues and other funds to redeem or purchase in the open market such bonds by June 30, 2006.

As of April 17, 2006, the state had $725,550,000 of outstanding commercial paper notes.

The following tables do not include $800,000,000 Various Purpose General Obligation Bonds which were issued on March 9, 2006 or $147,865,000 combined aggregate principal amount of Lease Revenue Bonds of the State Public Works Board of the State of California, Series 2006A, 2006B, 2006C and 2006D, which are expected to be delivered on April 25, 2006 and do not reflect the purchase on March 13, 2006 of $249.295 million principal amount of Economic Recovery Bonds in the open market.

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OUTSTANDING STATE DEBT
FISCAL YEARS 2000-2001 THROUGH 2004-2005
(Dollars in Thousands Except for Per Capita Information)

	2000-01	2001-02	2002-03	2003-04	2004-05
Outstanding Debt(a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating).................	$20,472,893	$22,115,362	$26,758,626	$33,028,807	$34,643,757
Enterprise Fund (Self Liquidating).....................	3,396,215	3,211,310	2,801,775	2,210,800	2,084,505
Special Revenue Fund (Self Liquidating)........	$0	$0	$0	$10,896,080	$10,727,305
Total..	$23,869,108	$25,326,672	$29,560,401	$46,135,687	$47,455,567
Lease-Purchase Debt..	6,413,260	6,341,935	6,704,599	7,288,147	7,841,383
Total Outstanding General Obligation Bonds and Lease-Purchase Debt.......................	$30,282,368	$31,668,607	$36,265,000	$53,423,834	$55,296,950
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds ..	$4,419,665	$3,905,025	$5,150,000	$7,816,275	$4,914,740
Self Liquidating General Obligation Bonds...........	$358,625	$111,325	$0	$0	$221,475
Self Liquidating Special Fund Revenue Bonds.....	$0	$0	$0	$10,896,080	$0
Lease-Puchase Debt..	$214,585	$229,105	$673,975	$1,235,660	$907,955
Debt Service(b)					
Non-Self Liquidating General Obligation Bonds..	$2,253,024	$2,314,724	$1,738,740	$1,861,972	$3,048,739
Lease-Puchase Debt...	$665,427	$635,844	$659,255	$689,851	$740,976
General Fund Receipts(c).....................................	$78,330,406	$66,604,508	$78,587,019	$79,385,818	$78,223,794
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	2.88%	3.48%	2.21%	2.35%	3.90%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts....................	0.85%	0.95%	0.84%	0.87%	0.95%
Population(d)...	34,099,000	34,784,000	35,393,000	35,991,000	36,591,000
Non-Self Liquidating General Obligation Bonds Outstanding per Capita......................................	$600.40	$635.79	$756.04	$917.70	$946.78
Lease-Purchase Debt Outstanding per Capita.......	$188.08	$182.32	$189.43	$202.50	$214.30
Personal Income(e)...	$1,103,842,000	$1,135,304,000	$1,149,183,000	$1,184,997,000	$1,256,959,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income...	1.85%	1.95%	2.33%	2.79%	2.76%
Lease-Purchase Debt Outstanding as Percentage of Personal Income...........................	0.58%	0.56%	0.58%	0.62%	0.62%

(a) As of last day of fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Calculated on a cash basis. Debt service costs of bonds issued in any fiscal year largely appear in the subsequent fiscal year. For FY 2002-03 and FY 2003-04, General Obligation Bond Debt Service was reduced through a debt restructuring program which included the use of proceeds from current refunding bonds to pay certain bonds maturing in those years.
(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds).
(d) As of July 1, the beginning of the fiscal year.
(e) Source: U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/
Annual Totals:"Pre-benchmark" Revisions: Released April 2005. California Department of Finance.

SOURCES: Population: State of California, Department of Finance
Personal Income: State of California, Department of Finance; United States, Department of Commerce, Bureau of Economic Analysis (BEA).
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of March 1, 2006

(Thousands)

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	CP Program Authorized (b)	Unissued (c)
GENERAL FUND BONDS (Non-Self Liquidating)					
1988 School Facilities Bond Act	11/08/88	800,000	344,530	2,255	0
1990 School Facilities Bond Act	06/05/90	800,000	372,860	2,125	0
1992 School Facilities Bond Act	11/03/92	900,000	510,412	4,789	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	03/05/02	2,600,000	489,650	1,033,360	1,073,410
California Library Construction and Renovation Bond Act of 1988	11/08/88	75,000	39,770	0	2,595
California Park and Recreational Facilities Act of 1984	06/05/84	370,000	82,665	N/A	1,100
California Parklands Act of 1980	11/04/80	285,000	15,640	N/A	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	03/07/00	350,000	45,700	68,290	235,950
California Safe Drinking Water Bond Law of 1976	06/08/76	175,000	27,130	N/A	2,500
California Safe Drinking Water Bond Law of 1984	11/06/84	75,000	15,885	N/A	0
California Safe Drinking Water Bond Law of 1986	11/04/86	100,000	50,095	N/A	0
California Safe Drinking Water Bond Law of 1988	11/08/88	75,000	44,210	6,975	0
California Wildlife, Coastal, and Park Land Conservation Act	06/07/88	776,000	329,505	N/A	7,330
Children's Hospital Bond Act of 2004	11/02/04	750,000	0	588,571	161,430
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Higher Education)	11/03/98	2,500,000	2,267,445	134,600	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	11/03/98	6,700,000	6,085,920	11,860	0
Clean Air and Transportation Improvement Bond Act of 1990	06/05/90	1,990,000	1,250,775	195,285	15,630
Clean Water Bond Law of 1970	11/03/70	250,000	2,500	N/A	0
Clean Water Bond Law of 1974	06/04/74	250,000	5,605	N/A	0
Clean Water Bond Law of 1984	11/06/84	325,000	56,495	N/A	0
Clean Water and Water Conservation Bond Law of 1978	06/06/78	375,000	18,205	N/A	0
Clean Water and Water Reclamation Bond Law of 1988	11/08/88	65,000	41,875	0	0
Community Parklands Act of 1986	06/03/86	100,000	28,225	N/A	0
County Correctional Facility Capital Expenditure Bond Act of 1986	06/03/86	495,000	150,455	N/A	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/08/88	500,000	252,950	0	0
County Jail Capital Expenditure Bond Act of 1981	11/02/82	280,000	25,550	N/A	0
County Jail Capital Expenditure Bond Act of 1984	06/05/84	250,000	21,400	N/A	0
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	06/05/90	300,000	211,265	34,940	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of March 1, 2006

(Thousands)

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	CP Program Authorized (b)	Unissued (c)
GENERAL FUND BONDS (Non-Self Liquidating)					
Fish and Wildlife Habitat Enhancement Act of 1984	06/05/84	85,000	18,160	N/A	0
Hazardous Substance Cleanup Bond Act of 1984	11/06/84	100,000	0	N/A	0
Higher Education Facilities Bond Act of 1986	11/04/86	400,000	75,850	N/A	0
Higher Education Facilities Bond Act of 1988	11/08/88	600,000	238,455	0	10,440
Higher Education Facilities Bond Act of June 1990	06/05/90	450,000	209,535	980	1,130
Higher Education Facilities Bond Act of June 1992	06/02/92	900,000	582,705	0	7,235
Housing and Emergency Shelter Trust Fund Act of 2002	11/05/02	2,100,000	28,790	1,200,000	871,125
Housing and Homeless Bond Act of 1990	06/05/90	150,000	5,530	N/A	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Higher Education)	11/05/02	1,650,000	442,655	784,375	416,000
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	11/05/02	11,400,000	9,256,885	2,076,065	0
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	03/02/04	2,300,000	15,765	710,661	1,573,524
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	03/02/04	10,000,000	1,327,690	8,670,575	0
Lake Tahoe Acquisitions Bond Act	08/02/82	85,000	17,130	N/A	0
New Prison Construction Bond Act of 1981	06/08/82	495,000	9,750	N/A	0
New Prison Construction Bond Act of 1984	06/05/84	300,000	7,500	N/A	0
New Prison Construction Bond Act of 1986	11/04/86	500,000	109,795	N/A	0
New Prison Construction Bond Act of 1988	11/08/88	817,000	328,445	7,475	0
New Prison Construction Bond Act of 1990	06/05/90	450,000	191,475	2,307	298
Passenger Rail and Clean Air Bond Act of 1990	06/05/90	1,000,000	488,320	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	03/26/96	975,000	810,000	0	37,465
Public Education Facilities Bond Act of 1996 (K-12)	03/26/96	2,025,000	1,591,060	12,965	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	03/07/00	1,970,000	777,370	667,659	487,949
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	03/07/00	2,100,000	1,239,030	233,790	565,625
Safe, Clean, Reliable Water Supply Act	11/05/96	995,000	603,315	336,430	0
School Building and Earthquake Bond Act of 1974	11/05/74	40,000	27,985	N/A	0
School Facilities Bond Act of 1988	06/07/88	800,000	299,840	N/A	0
School Facilities Bond Act of 1990	11/06/90	800,000	417,600	0	0
School Facilities Bond Act of 1992	06/02/92	1,900,000	1,057,380	15,055	0
Seismic Retrofit Bond Act of 1996	03/26/96	2,000,000	1,634,150	143,870	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of March 1, 2006

(Thousands)

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	CP Program Authorized (b)	Unissued (c)
GENERAL FUND BONDS (Non-Self Liquidating)					
Senior Center Bond Act of 1984	11/06/84	50,000	2,250	N/A	0
State Beach, Park, Recreational and Historical Facilities Bond Act of 1974	06/04/74	250,000	0	N/A	0
State School Building Lease-Purchase Bond Law of 1982	11/02/82	500,000	0	N/A	0
State School Building Lease-Purchase Bond Law of 1984	11/06/84	450,000	57,100	N/A	0
State School Building Lease-Purchase Bond Law of 1986	11/04/86	800,000	180,150	N/A	0
State, Urban, and Coastal Park Bond Act of 1976	11/02/76	280,000	10,300	N/A	0
Stem Cell Research and Cures Act of 2004	11/02/04	3,000,000	0	200,000	2,800,000
Veterans Homes Bond Act of 2000	03/07/00	50,000	3,080	41,920	5,000
Voting Modernization Bond Act of 2002	03/05/02	200,000	36,150	137,370	0
Water Conservation Bond Law of 1988	11/08/88	60,000	36,300	9,525	0
Water Conservation and Water Quality Bond Law of 1986	06/03/86	150,000	56,765	N/A	27,600
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/05/02	3,440,000	627,765	692,800	2,107,900
Total General Fund Bonds		79,128,000	35,608,742	18,026,871	10,411,235
ENTERPRISE FUND BONDS (Self Liquidating)					
California Water Resources Development Bond Act	11/08/60	1,750,000	695,205	N/A	167,600
Veterans Bond Act of 1980	06/03/80	750,000	55,000	0	0
Veterans Bond Act of 1982	11/02/82	450,000	92,500	0	0
Veterans Bond Act of 1984	11/06/84	650,000	187,255	0	0
Veterans Bond Act of 1986	06/03/86	850,000	262,115	0	0
Veterans Bond Act of 1988	06/07/88	510,000	233,970	0	0
Veterans Bond Act of 1990	11/06/90	400,000	181,340	0	0
Veterans Bond Act of 1996	11/05/96	400,000	268,995	0	0
Veterans Bond Act of 2000	11/07/00	500,000	14,415	115,570	370,015
Total Enterprise Fund Bonds		6,260,000	1,990,795	115,570	537,615

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS

As of March 1, 2006

(Thousands)

	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding (a)	CP Program Authorized (b)	Unissued (c)
SPECIAL REVENUE FUND BONDS (Self Liquidating)					
Economic Recovery Bond Act	04/10/04	15,000,000	10,187,325	N/A	4,103,920
Total Special Revenue Fund Bonds		15,000,000	10,187,325	0	4,103,920
TOTAL GENERAL OBLIGATION BONDS		100,388,000	47,786,862	18,142,441	15,052,770

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Represents the total amount of commercial paper authorized by Finance Committees that could be issued for new money projects. Of this amount, no more than $1.5 billion of commercial paper principal and interest can be owing at any time. Currently, there is $980,550,000.00 of commercial paper issued and outstanding. The bond acts marked as "n.a." are not legally permitted to utilize commercial paper, or all bonds were issued before the commercial paper program began.
(c) Treats full commercial paper authorization as issued; see footnote(b).

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND LEASE REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of March 1, 2006

	Total Debt		
	Interest	**Principal (a)**	**Total**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING			
Fixed Rate	$ 22,266,300,675.93	$ 32,208,742,123.47	$ 54,475,042,799.40
Variable Rate (b)	1,726,562,201.32	3,400,000,000.00	5,126,562,201.32
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	1,070,340,531.50	1,990,795,000.00	3,061,135,531.50
SPECIAL REVENUE FUND SELF LIQUIDATING (c)			
Fixed Rate	2,067,428,138.02	6,237,760,000.00	8,305,188,138.02
Variable Rate (d)	1,572,175,577.76	3,949,565,000.00	5,521,740,577.76
REVENUE BONDS			
GENERAL FUND LEASE REVENUE			
Lease Purchase	4,144,479,394.43	7,736,955,074.62	11,881,434,469.05
General Fund and Lease Revenue Total (e)	**$ 32,847,286,518.96**	**$ 55,523,817,198.09**	**$ 88,371,103,717.05**

(a) Includes scheduled mandatory sinking fund payments.
(b) The estimate of future interest payments is based on rates in effect as of March 1, 2006.
(c) Economic Recovery Bonds.
(d) The estimate of future interest payments is based on rates in effect as of March 1, 2006. $1,000,000,000 of Series 2004B bonds bear interest at fixed rates ranging from 3.00-5.00% until reset dates on July 1, 2007 and July 1, 2008, and are assumed to bear interest at the rate of 3.33% from each reset date to maturity.
(e) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2006	383,503,722.12	356,155,000.00	739,658,722.12	(b)
2007	1,620,397,053.43	1,383,145,000.00	3,003,542,053.43	
2008	1,548,311,380.43	1,528,253,078.31	3,076,564,458.74	
2009	1,465,771,896.25	1,601,695,000.00	3,067,466,896.25	
2010	1,379,247,727.55	1,687,560,000.00	3,066,807,727.55	
2011	1,290,603,626.09	1,664,989,045.16	2,955,592,671.25	
2012	1,198,150,407.44	1,364,210,000.00	2,562,360,407.44	
2013	1,131,484,476.25	1,078,725,000.00	2,210,209,476.25	
2014	1,079,441,670.89	998,000,000.00	2,077,441,670.89	
2015	1,031,715,113.44	933,990,000.00	1,965,705,113.44	
2016	984,047,657.71	799,165,000.00	1,783,212,657.71	
2017	942,696,303.28	776,095,000.00	1,718,791,303.28	
2018	903,609,270.45	787,340,000.00	1,690,949,270.45	
2019	862,595,836.72	844,155,000.00	1,706,750,836.72	
2020	819,029,004.11	966,035,000.00	1,785,064,004.11	
2021	771,164,387.37	911,260,000.00	1,682,424,387.37	
2022	724,544,142.37	1,117,945,000.00	1,842,489,142.37	
2023	667,515,094.07	1,163,450,000.00	1,830,965,094.07	
2024	609,662,524.48	1,084,550,000.00	1,694,212,524.48	
2025	553,691,604.55	1,236,210,000.00	1,789,901,604.55	
2026	492,626,271.81	1,189,780,000.00	1,682,406,271.81	
2027	433,704,673.06	1,181,130,000.00	1,614,834,673.06	
2028	372,749,715.26	1,276,225,000.00	1,648,974,715.26	
2029	309,364,246.04	1,208,325,000.00	1,517,689,246.04	
2030	247,151,417.33	1,337,590,000.00	1,584,741,417.33	
2031	181,713,942.18	1,024,895,000.00	1,206,608,942.18	
2032	129,908,865.00	982,230,000.00	1,112,138,865.00	
2033	80,473,738.75	861,405,000.00	941,878,738.75	
2034	37,671,882.50	581,060,000.00	618,731,882.50	
2035	11,464,400.00	191,630,000.00	203,094,400.00	
2036	2,288,625.00	91,545,000.00	93,833,625.00	
Total	**$22,266,300,675.93**	**$32,208,742,123.47**	**$54,475,042,799.40**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from April 1, 2006 through June 30. 2006.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total	
2006	27,024,187.37	0.00	27,024,187.37	(c)
2007	100,439,595.43	19,000,000.00	119,439,595.43	
2008	100,305,024.82	0.00	100,305,024.82	
2009	99,875,576.30	0.00	99,875,576.30	
2010	99,946,425.56	0.00	99,946,425.56	
2011	100,233,231.11	0.00	100,233,231.11	
2012	100,064,660.19	0.00	100,064,660.19	
2013	100,279,437.17	0.00	100,279,437.17	
2014	99,699,982.99	0.00	99,699,982.99	
2015	99,714,566.32	0.00	99,714,566.32	
2016	100,208,144.26	67,455,000.00	167,663,144.26	
2017	96,898,928.12	372,685,000.00	469,583,928.12	
2018	86,109,265.95	476,190,000.00	562,299,265.95	
2019	72,776,962.93	238,680,000.00	311,456,962.93	
2020	65,285,035.22	230,050,000.00	295,335,035.22	
2021	58,774,879.72	183,510,000.00	242,284,879.72	
2022	53,872,733.46	97,060,000.00	150,932,733.46	
2023	50,692,640.05	119,800,000.00	170,492,640.05	
2024	46,922,895.00	296,540,000.00	343,462,895.00	
2025	38,244,900.54	201,180,000.00	239,424,900.54	
2026	31,836,361.65	346,030,000.00	377,866,361.65	
2027	22,389,426.35	74,285,000.00	96,674,426.35	
2028	20,296,190.79	77,260,000.00	97,556,190.79	
2029	17,755,154.94	110,350,000.00	128,105,154.94	
2030	14,498,816.44	114,760,000.00	129,258,816.44	
2031	10,999,535.16	119,350,000.00	130,349,535.16	
2032	7,470,178.50	124,125,000.00	131,595,178.50	
2033	3,702,579.03	129,090,000.00	132,792,579.03	
2034	72,585.75	1,600,000.00	1,672,585.75	
2035	29,120.00	0.00	29,120.00	
2036	29,246.21	0.00	29,246.21	
2037	28,993.79	0.00	28,993.79	
2038	29,120.00	0.00	29,120.00	
2039	29,120.00	0.00	29,120.00	
2040	26,700.20	1,000,000.00	1,026,700.20	
Total	**$1,726,562,201.32**	**$3,400,000,000.00**	**$5,126,562,201.32**	

(a) The estimate of future interest payments is based on rates in effect as of March 1, 2006. The interest rates for the daily, weekly and auction rate bonds range from 2.65 - 3.29%.

(b) Includes scheduled mandatory sinking fund payments.

(c) Total represents the remaining estimated debt service requirements from April 1, 2006 through June 30, 2006.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt			
	Interest	**Principal (a)**	**Total**	
2007	304,401,150.00	359,070,000.00	663,471,150.00	(b)
2008	288,573,775.00	393,925,000.00	682,498,775.00	
2009	269,418,525.00	449,920,000.00	719,338,525.00	
2010	246,903,200.00	506,870,000.00	753,773,200.00	
2011	221,284,162.50	549,060,000.00	770,344,162.50	
2012	193,051,135.00	289,375,000.00	482,426,135.00	
2013	170,634,927.50	603,520,000.00	774,154,927.50	
2014	139,723,447.50	606,870,000.00	746,593,447.50	
2015	107,332,438.02	653,350,000.00	760,682,438.02	
2016	72,076,735.00	740,980,000.00	813,056,735.00	
2017	40,281,030.00	538,820,000.00	579,101,030.00	
2018	13,486,362.50	545,000,000.00	558,486,362.50	
2019	47,500.00	0.00	47,500.00	
2020	47,500.00	0.00	47,500.00	
2021	47,500.00	0.00	47,500.00	
2022	47,500.00	0.00	47,500.00	
2023	47,500.00	0.00	47,500.00	
2024	23,750.00	1,000,000.00	1,023,750.00	
Total	**$2,067,428,138.02**	**$6,237,760,000.00**	**$8,305,188,138.02**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from April 1, 2006 through June 30, 2006.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Variable Rate
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt Interest (a)	Principal (b)	Total	
2006	$ 21,597,839.47	$ -	$ 21,597,839.47	(c)
2007	128,342,280.50	-	128,342,280.50	
2008	126,133,861.74	-	126,133,861.74	
2009	120,713,499.26	-	120,713,499.26	
2010	118,987,080.50	-	118,987,080.50	
2011	118,987,080.50	-	118,987,080.50	
2012	119,124,344.03	-	119,124,344.03	
2013	119,319,335.22	-	119,319,335.22	
2014	118,752,321.38	-	118,752,321.38	
2015	118,752,321.38	-	118,752,321.38	
2016	119,124,344.03	-	119,124,344.03	
2017	116,790,711.97	297,410,000.00	414,200,711.97	
2018	103,493,309.49	651,985,000.00	755,478,309.49	
2019	71,917,331.24	985,780,000.00	1,057,697,331.24	
2020	37,844,061.57	1,005,650,000.00	1,043,494,061.57	
2021	11,380,306.18	775,865,000.00	787,245,306.18	
2022	701,674.30	226,625,000.00	227,326,674.30	
2023	184,775.00	-	184,775.00	
2024	29,100.00	6,250,000.00	6,279,100.00	
Total	$ 1,572,175,577.76	$ 3,949,565,000.00	$ 5,521,740,577.76	

(a) The estimate of future interest payments is based on rates in effect as of March 1, 2006. The interest rates for the daily and weekly rate bonds range from 2.65-3.00%. $1,000,000,000 of Series 2004B bonds bear interest at fixed rates ranging from 3.00-5.00% until reset dates on July 1, 2007 and July 1, 2008, and are assumed to bear interest at the rate of 3.33% from each reset date to maturity.

(b) Includes scheduled mandatory sinking fund payments.

(c) Total represents the remaining estimated debt service requirements from April 1, 2006 through June 30, 2006.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt			
	Interest	**Principal (a)**	**Total**	
2006	45,391,410.37	27,490,000.00	72,881,410.37	(b)
2007	106,439,822.26	129,360,000.00	235,799,822.26	
2008	96,617,986.04	136,430,000.00	233,047,986.04	
2009	86,829,718.75	135,340,000.00	222,169,718.75	
2010	77,556,794.05	118,190,000.00	195,746,794.05	
2011	70,227,072.02	86,480,000.00	156,707,072.02	
2012	65,594,219.75	100,895,000.00	166,489,219.75	
2013	61,222,059.37	93,395,000.00	154,617,059.37	
2014	56,770,503.50	107,720,000.00	164,490,503.50	
2015	51,703,008.05	114,260,000.00	165,963,008.05	
2016	45,912,866.90	121,930,000.00	167,842,866.90	
2017	39,688,996.79	129,925,000.00	169,613,996.79	
2018	34,214,708.99	90,035,000.00	124,249,708.99	
2019	29,981,716.61	85,850,000.00	115,831,716.61	
2020	26,508,908.61	53,340,000.00	79,848,908.61	
2021	23,670,512.50	46,365,000.00	70,035,512.50	
2022	21,158,096.25	41,990,000.00	63,148,096.25	
2023	19,372,992.01	22,480,000.00	41,852,992.01	
2024	18,040,105.52	27,025,000.00	45,065,105.52	
2025	16,406,841.91	34,350,000.00	50,756,841.91	
2026	14,732,973.75	28,805,000.00	43,537,973.75	
2027	13,195,135.00	28,645,000.00	41,840,135.00	
2028	11,828,360.00	22,215,000.00	34,043,360.00	
2029	10,478,760.00	27,955,000.00	38,433,760.00	
2030	8,737,392.50	36,100,000.00	44,837,392.50	
2031	6,821,867.50	33,920,000.00	40,741,867.50	
2032	4,894,975.00	36,375,000.00	41,269,975.00	
2033	2,858,227.50	37,930,000.00	40,788,227.50	
2034	1,565,500.00	10,000,000.00	11,565,500.00	
2035	1,060,500.00	10,000,000.00	11,060,500.00	
2036	631,250.00	7,000,000.00	7,631,250.00	
2037	227,250.00	9,000,000.00	9,227,250.00	
Total	**$1,070,340,531.50**	**$1,990,795,000.00**	**$3,061,135,531.50**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from April 1, 2006 through June 30, 2006.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-PURCHASE DEBT
As of March 1, 2006

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2006	161,340,689.92	99,815,000.00	261,155,689.92	(b)
2007	397,145,034.34	370,308,920.44	767,453,954.78	
2008	376,189,374.64	384,776,787.98	760,966,162.62	
2009	361,624,881.69	407,317,732.44	768,942,614.13	
2010	336,202,540.99	397,806,633.76	734,009,174.75	
2011	305,427,247.68	410,740,000.00	716,167,247.68	
2012	284,836,476.17	396,280,000.00	681,116,476.17	
2013	264,547,209.25	407,425,000.00	671,972,209.25	
2014	243,580,029.46	412,945,000.00	656,525,029.46	
2015	222,033,232.45	435,630,000.00	657,663,232.45	
2016	199,385,746.18	419,635,000.00	619,020,746.18	
2017	177,195,524.43	427,635,000.00	604,830,524.43	
2018	155,171,199.58	445,315,000.00	600,486,199.58	
2019	132,617,988.28	407,690,000.00	540,307,988.28	
2020	111,680,087.87	381,915,000.00	493,595,087.87	
2021	93,335,438.62	322,200,000.00	415,535,438.62	
2022	76,762,987.49	297,885,000.00	374,647,987.49	
2023	62,946,902.87	251,040,000.00	313,986,902.87	
2024	51,023,834.50	167,525,000.00	218,548,834.50	
2025	42,531,703.65	176,005,000.00	218,536,703.65	
2026	34,074,926.87	166,680,000.00	200,754,926.87	
2027	25,533,755.00	175,180,000.00	200,713,755.00	
2028	16,633,827.50	168,425,000.00	185,058,827.50	
2029	8,839,326.25	108,835,000.00	117,674,326.25	
2030	3,523,057.50	77,100,000.00	80,623,057.50	
2031	296,371.25	20,845,000.00	21,141,371.25	
Total	**$4,144,479,394.43**	**$7,736,955,074.62**	**$11,881,434,469.05**	

(a) Includes scheduled mandatory sinking fund payments.

(b) Total represents the remaining debt service requirements from April 1, 2006 through June 30, 2006.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-PURCHASE FINANCING
OUTSTANDING ISSUES
March 1, 2006

Name of Issue	Outstanding
GENERAL FUND SUPPORTED ISSUES:	
State Public Works Board	
California Community Colleges	556,425,000
California Department of Corrections *	2,249,712,876
California Youth Authority	15,610,000
Office of Energy Assessments (a)	49,025,000
The Regents of the University of California (b) *	1,815,807,198
Trustees of the California State University	520,080,000
Various State Office Buildings	1,803,555,000
Total State Public Works Board Issues	**$7,010,215,075**
Total Other State Building Lease Purchase Issues (c)	**$726,740,000**
Total General Fund Supported Issues	**$7,736,955,075**
SPECIAL FUND SUPPORTED ISSUES:	
East Bay State Building Authority *	55,946,813
San Bernardino Joint Powers Financing Authority	49,355,000
San Francisco State Building Authority (d)	32,425,000
Total Special Fund Supported Issues	**$137,726,813**
TOTAL	**$7,874,681,888**

* Includes the initial value of capital appreciation bonds rather than the accreted value.
(a) This program is self-liquidating based on energy cost savings.
(b) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
(c) Includes $168,580,000 Sacramento City Financing Authority Lease Revenue Bonds State of California - Cal EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.
(d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2005

Issuing Agency		Outstanding[(a)(b)]
State Programs Financing:		
California Department of Transportation - GARVEE	$	573,305,000
California Infrastructure and Economic Development Bank [(c)(d)]		1,659,210,000
California State University		2,053,588,000
Department of Water Resources - Central Valley Project		2,364,060,000
Department of Water Resources - Power Supply Program		10,937,415,000
The Regents of the University of California		5,948,570,000
Housing Financing:		
California Housing Finance Agency		7,737,076,849
Veterans Revenue Debenture		561,175,000
Conduit Financing:		
California Alternative Energy and Advanced Transportation Financing Authority		53,235,000
California Educational Facilities Authority		3,294,058,529
California Health Facilities Financing Authority		6,425,563,908
California Infrastructure and Economic Development Bank [(c)]		3,998,942,997
California Pollution Control Financing Authority		4,112,511,977
California Student Loan Authority		43,155,000
TOTAL	**$**	**49,761,867,260**

[(a)] Totals for California Department of Transportation (GARVEE), California State University, California Transportation Commission, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

[(b)] Does not include $6.1 Billion of "tobacco settlement revenue bonds" issued by Golden State Tobacco Securitization Corporation.

[(c)] Does not include $6 billion of "rate reduction bonds" issued by special purpose trusts for the benefit of four investor-owned electric utility companies representing interests in certain electric rate surcharges.

[(d)] Includes the Toll Bridge Seismic Retrofit Revenue Notes Series 2005A Second Lien Commercial Paper.

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

June 2005

STEVE WESTLY
California State Controller

STEVE WESTLY
California State Controller

July 8, 2005

Users of the Statement of General Fund Cash Receipts and Disbursements

Attached are the Statements of General Fund Cash Receipts and Disbursements for the period July 1, 2004 through June 30, 2005. These statements reflect the State of California's General Fund cash position and compare actual receipts and disbursements for the 2004-05 fiscal year to cash flow estimates prepared by the Department of Finance for the 2005-06 May Revision as well as the 2004-05 Budget Act. These statements are prepared in compliance with Government Code section 12461.1, as well as Item 0840-001-0001, Provision 10, of the 2004-05 Budget Act, using records compiled by the State Controller.

Attachment A compares actual receipts and disbursements to date for the 2004-05 fiscal year to cash flow estimates published in the 2005-06 May Revision. These cash flow estimates are predicated on projections and assumptions made by the Department of Finance in preparation of the May Revision.

Attachment B compares actual receipts and disbursements to date for the 2004-05 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2004-05 Budget Act. Prior year actual amounts are also displayed for comparative purposes.

These statements are also available on the Internet at the State Controller's website at http://www.sco.ca.gov/ard/state/index.shtml under the category Monthly Statement of General Fund Cash Receipts and Disbursements.

Any questions concerning this report may be directed to Vincent P. Brown, Chief Operating Officer, at (916) 552-8080.

Sincerely,

Original Signed By:

STEVE WESTLY
California State Controller

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 P.O. Box 942850, Sacramento, CA 94250
PHONE: (916) 445-2636 Fax: (916) 445-6379 Web Address: www.sco.ca.gov E-Mail: steve@sco.ca.gov

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2005-06 May Revision Estimates
(Amounts in thousands)
Attachment A

	July 1 through June 30				
	2005				2004
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 538,359**	**$ 538,359**	**$ -**	**-**	**$ 438,110**
Add Receipts:					
Revenues	85,447,296	84,816,000	631,296	0.7	75,482,847
Nonrevenues	2,489,646	2,222,885	266,761	12.0	15,156,971
Total Receipts	87,936,942	87,038,885	898,057	1.0	90,639,818
Less Disbursements:					
State Operations	20,035,355	20,117,186	(81,831)	(0.4)	17,798,511
Local Assistance	61,717,948	63,340,410	(1,622,462)	(2.6)	58,838,048
Capital Outlay	84,665	63,598	21,067	33.1	385,372
Payment to Deficit Recovery Fund	2,012,000	-	2,012,000	-	-
Offsets from Economic Recovery Bonds	(2,012,000)	-	(2,012,000)	-	-
Nongovernmental	200,545	480,552	(280,007)	(58.3)	2,552,638
Total Disbursements	82,038,513	84,001,746	(1,963,233)	(2.3)	79,574,569
Receipts Over / (Under) Disbursements	5,898,429	3,037,139	2,861,290	94.2	11,065,249
Net Increase / (Decrease) in Temporary Loans	-	-	-	-	(10,965,000)
GENERAL FUND ENDING CASH BALANCE	**6,436,788**	**3,575,498**	**2,861,290**	**80.0**	**538,359**
Special Fund for Economic Uncertainties	744,541	768,000	(23,459)	(3.1)	2,216,023
TOTAL CASH	**$ 7,181,329**	**$ 4,343,498**	**$ 2,837,831**	**65.3**	**$ 2,754,382**

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 10,005,342	$ 9,431,739	$ 573,603	6.1	$ 9,951,264
Outstanding Loans (b)	-	-	-	-	-
Unused Borrowable Resources	$ 10,005,342	$ 9,431,739	$ 573,603	6.1	$ 9,951,264

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2004-05 fiscal year prepared by the Department of Finance for the May Revision to 2005-06 Governor's Budget. Any projections or estimates are set forth as such and not as representations of fact.
(b) Cumulative loan balance consisted of no internal or external borrowing.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) Includes Technology, Trade and Commerce that was previously displayed separately and abolished on January 1, 2004
(e) Includes School Facility Aid Program that was previously displayed separately.
(f) The State's Tax Amnesty Program generated total collections of $4.6 billion, which consisted of $3.7 billion from Corporation Taxes, $713 million from Personal Income Taxes, and $140 million from Retail Sales and Use Taxes.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
					Actual Over or (Under) Estimate		
	2005	2004	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 25,412	$ 24,382	$ 312,671	$ 308,000	$ 4,671	1.5	$ 311,872
Corporation Tax (f)	1,714,629	1,487,617	12,496,503	12,457,000	39,503	0.3	7,964,152
Cigarette Tax	13,416	9,148	122,206	122,000	206	0.2	116,903
Estate, Inheritance, and Gift Tax	22,367	46,281	452,679	444,000	8,679	2.0	574,510
Insurance Companies Tax	474,653	424,359	2,228,317	2,231,000	(2,683)	(0.1)	2,113,933
Personal Income Tax (f)	4,409,751	3,834,892	42,476,251	42,222,000	254,251	0.6	36,752,037
Retail Sales and Use Taxes (f)	2,798,102	2,821,139	25,506,531	25,136,000	370,531	1.5	23,699,237
Pooled Money Investment Interest	25,467	14,684	167,339	169,000	(1,661)	(1.0)	120,126
Not Otherwise Classified	125,627	131,782	1,684,799	1,727,000	(42,201)	(2.4)	3,830,077
Total Revenues (f)	**9,609,424**	**8,794,284**	**85,447,296**	**84,816,000**	**631,296**	**0.7**	**75,482,847**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	1,448,000	1,448,000	-	-	2,524,497
Transfers from Other Funds	71,391	173,773	487,988	337,413	150,575	44.6	895,577
Transfers from Economic Recovery Fund	-	2,914,720	-	-	-	-	11,254,000
Miscellaneous	32,333	26,593	553,658	437,472	116,186	26.6	482,897
Total Nonrevenues	**103,724**	**3,115,086**	**2,489,646**	**2,222,885**	**266,761**	**12.0**	**15,156,971**
Total Receipts	**$ 9,713,148**	**$ 11,909,370**	**$ 87,936,942**	**$ 87,038,885**	**$ 898,057**	**1.0**	**$ 90,639,818**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
	2005	2004	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 57,051	$ 66,046	$ 1,298,574	$ 1,120,137	$ 178,437	15.9	$ 1,261,202
State and Consumer Services	40,838	27,117	509,350	535,609	(26,259)	(4.9)	468,069
Business, Transportation and Housing	(313)	(1)	3,386	4,763	(1,377)	(28.9)	5,719
Resources	39,381	17,704	761,199	716,778	44,421	6.2	714,746
CA Environmental Protection Agency	3,323	5,793	50,461	62,959	(12,498)	(19.9)	77,648
Health and Human Services:							
Health Services	6,494	(2,047)	258,528	265,732	(7,204)	(2.7)	229,969
Mental Health Hospitals	30,408	38,894	571,258	677,837	(106,579)	(15.7)	524,381
Other Health and Human Services	20,675	39,037	589,512	579,212	10,300	1.8	632,042
Education:							
University of California	9,982	9,531	2,670,057	2,705,935	(35,878)	(1.3)	2,919,292
State Universities and Colleges	309,709	255,146	2,488,257	2,489,559	(1,302)	(0.1)	2,615,895
Other Education	9,193	11,432	146,158	149,230	(3,072)	(2.1)	153,346
Corrections and Youth Authority	522,458	460,556	6,364,036	6,422,315	(58,279)	(0.9)	5,042,508
General Government (d)	130,894	87,713	1,265,848	1,275,244	(9,396)	(0.7)	1,157,239
Public Employees Retirement System	(138,842)	(117,454)	(63,151)	-	(63,151)	-	(146,560)
Debt Service	220,633	109,080	3,032,522	3,027,547	4,975	0.2	1,860,442
Interest on Loans	152,702	270,682	89,360	84,329	5,031	6.0	282,573
Total State Operations	**1,414,586**	**1,279,229**	**20,035,355**	**20,117,186**	**(81,831)**	**(0.4)**	**17,798,511**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	199,955	305,434	29,428,525	30,597,328	(1,168,803)	(3.8)	25,678,841
CA Community Colleges	137,572	120,988	3,042,733	3,041,108	1,625	0.1	2,280,341
Debt Service School Building Bonds	-	-	-	(8,002)	8,002	-	-
Contributions to State Teachers' Retirement System	-	-	1,148,792	1,148,792	-	-	509,763
Other Education (e)	132,492	(13,990)	2,325,743	2,085,986	239,757	11.5	2,149,852
Corrections and Youth Authority	136	9,551	214,051	188,982	25,069	13.3	144,739
Dept. of Alcohol and Drug Program	(4,502)	13,024	227,987	230,209	(2,222)	(1.0)	209,868
Dept. of Health Services:							
Medical Assistance Program	987,446	922,481	11,484,288	11,559,787	(75,499)	(0.7)	10,852,486
Other Health Services	36,429	84,929	495,354	386,098	109,256	28.3	446,401
Dept. of Developmental Services	32,627	18,764	1,604,536	1,721,582	(117,046)	(6.8)	1,602,228
Dept. of Mental Health	(138,426)	(51,386)	98,471	314,803	(216,332)	(68.7)	383,796
Dept. of Social Services:							
SSI/SSP/IHSS	230,553	346,654	4,580,336	4,879,869	(299,533)	(6.1)	4,219,940
CalWORKs	82,207	78,678	2,671,866	2,679,817	(7,951)	(0.3)	3,035,140
Other Social Services	62,660	72,007	1,145,377	1,214,307	(68,930)	(5.7)	1,074,323
Tax Relief	6,594	485,913	667,334	665,670	1,664	0.2	3,654,364
Other Local Assistance	70,393	91,665	2,582,555	2,634,074	(51,519)	(2.0)	2,595,966
Total Local Assistance	**1,836,136**	**2,484,712**	**61,717,948**	**63,340,410**	**(1,622,462)**	**(2.6)**	**58,838,048**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
	2005	2004	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**13,646**	**82,832**	**84,665**	**63,598**	**21,067**	**33.1**	**385,372**
PAYMENT TO DEFICIT RECOVERY FUND	**-**	**-**	**2,012,000**	**-**	**2,012,000**	**-**	**-**
OFFSETS FROM ECONOMIC RECOVERY BONDS	**-**	**-**	**(2,012,000)**	**-**	**(2,012,000)**	**-**	**-**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	2,216,000
Transfer to Other Funds	45,950	120,627	141,938	267,312	(125,374)	(46.9)	431,270
Transfer to Revolving Fund	(17,674)	(34,111)	35,650	-	35,650	-	(69,515)
Advance:							
State-County Property Tax Administration Program	-	-	-	-	-	-	-
Social Welfare Federal Fund	(1,061)	(14,900)	(37,582)	-	(37,582)	-	(45,093)
Tax Relief and Refund Account	(56,700)	(48,000)	-	-	-	-	-
Counties for Social Welfare	560,974	500,435	60,539	213,240	(152,701)	(71.6)	19,976
Total Nongovernmental	**531,489**	**524,051**	**200,545**	**480,552**	**(280,007)**	**(58.3)**	**2,552,638**
Total Disbursements	**$ 3,795,857**	**$ 4,370,824**	**$ 82,038,513**	**$ 84,001,746**	**$ (1,963,233)**	**(2.3)**	**$ 79,574,569**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ -	$ -	$ -	-	$ -
Other Internal Sources	-	-	-	-	-	-	-
Revenue Anticipation Notes	(6,000,000)	(3,000,000)	-	-	-		-
2003 Revenue Anticipation Warrants	-	(10,965,000)	-	-	-	-	(10,965,000)
Net Increase / (Decrease) Loans	**$ (6,000,000)**	**$ (13,965,000)**	**$ -**	**$ -**	**$ -**	**-**	**$ (10,965,000)**

See notes on page 1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2005	2004	2005	2004
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 312,671	$ 311,872	$ -	$ -
Corporation Tax	12,496,503	7,964,152	-	9
Cigarette Tax	122,206	116,903	1,002,794	953,758
Estate, Inheritance, and Gift Tax	452,679	574,510	-	-
Insurance Companies Tax	2,228,317	2,113,933	-	-
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	2,880,441	2,844,305
Diesel & Liquid Petroleum Gas	-	-	523,839	512,981
Jet Fuel Tax	-	-	10,966	2,305
Vehicle License Fees	-	-	2,143,158	2,062,115
Motor Vehicle Registration and Other Fees	-	-	2,741,376	2,403,587
Personal Income Tax	42,476,251	36,752,037	173,992	4,358
Retail Sales and Use Taxes	25,506,531	23,699,237	6,798,285	5,037,918
Pooled Money Investment Interest	167,339	120,126	149	119
Total Major Taxes, Licenses, and Investment Income	**83,762,497**	**71,652,770**	**16,275,000**	**13,821,455**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	3,404	2,273	44,400	40,424
Electrical Energy Tax	-	-	574,073	535,169
Private Rail Car Tax	6,577	6,637	-	-
Penalties on Traffic Violations	-	-	92,162	85,433
Health Care Receipts	8,968	12,905	-	-
Revenues from State Lands	185,447	107,913	500	7,900
Abandoned Property	707,306	642,602	-	-
Trial Court Revenues	56,556	44,941	1,222,480	1,127,079
Horse Racing Fees	2,605	2,452	35,836	38,337
Miscellaneous	713,936	3,010,354	6,882,047	5,980,138
Not Otherwise Classified	**1,684,799**	**3,830,077**	**8,851,498**	**7,814,480**
Total Revenues, All Governmental Cost Funds	**$ 85,447,296**	**$ 75,482,847**	**$ 25,126,498**	**$ 21,635,935**

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2004-05 Budget Act Estimates
(Amounts in thousands)
Attachment B

	July 1 through June 30				
	2005				2004
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 538,359**	**$ 538,359**	**$ -**	**-**	**$ 438,110**
Add Receipts:					
Revenues	85,447,296	76,483,000	8,964,296	11.7	75,482,847
Nonrevenues	2,489,646	3,838,276	(1,348,630)	(35.1)	15,156,971
Total Receipts	87,936,942	80,321,276	7,615,666	9.5	90,639,818
Less Disbursements:					
State Operations	20,035,355	19,113,883	921,472	4.8	17,798,511
Local Assistance	61,717,948	64,276,843	(2,558,895)	(4.0)	58,838,048
Capital Outlay	84,665	53,495	31,170	58.3	385,372
Payment to Deficit Recovery Fund	2,012,000	2,012,000	-	-	-
Offsets from Economic Recovery Bonds & Punitive Damages	(2,012,000)	(2,462,000)	450,000	-	-
Nongovernmental	200,545	1,199,143	(998,598)	(83.3)	2,552,638
Total Disbursements	82,038,513	84,193,364	(2,154,851)	(2.6)	79,574,569
Receipts Over / (Under) Disbursements	5,898,429	(3,872,088)	9,770,517	-	11,065,249
Net Increase / (Decrease) in Temporary Loans	-	3,333,729	(3,333,729)	(100.0)	(10,965,000)
GENERAL FUND ENDING CASH BALANCE	**6,436,788**	**-**	**6,436,788**	**-**	**538,359**
Special Fund for Economic Uncertainties	744,541	-	744,541	-	2,216,023
TOTAL CASH	**$ 7,181,329**	**$ -**	**$ 7,181,329**	**-**	**$ 2,754,382**
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 10,005,342	$ 7,827,900	$ 2,177,442	27.8	$ 9,951,264
Outstanding Loans (b)	-	3,333,729	(3,333,729)	(100.0)	-
Unused Borrowable Resources	$ 10,005,342	$ 4,494,171	$ 5,511,171	122.6	$ 9,951,264

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2004-05 fiscal year prepared by the Department of Finance for the Budget Act of 2004. Any projections or estimates are set forth as such and not as representations of fact.
(b) Cumulative loan balance consisted of no internal or external borrowing.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) Includes Technology, Trade and Commerce that was previously displayed separately and abolished on January 1, 2004
(e) Includes School Facility Aid Program that was previously displayed separately.
(f) The State's Tax Amnesty Program generated total collections of $4.6 billion, which consisted of $3.7 billion from Corporation Taxes, $713 million from Personal Income Taxes, and $140 million from Retail Sales and Use Taxes.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
	2005	2004	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 25,412	$ 24,382	$ 312,671	$ 303,000	$ 9,671	3.2	$ 311,872
Corporation Tax (f)	1,714,629	1,487,617	12,496,503	7,212,000	5,284,503	73.3	7,964,152
Cigarette Tax	13,416	9,148	122,206	118,000	4,206	3.6	116,903
Estate, Inheritance, and Gift Tax	22,367	46,281	452,679	333,000	119,679	35.9	574,510
Insurance Companies Tax	474,653	424,359	2,228,317	2,195,000	33,317	1.5	2,113,933
Personal Income Tax (f)	4,409,751	3,834,892	42,476,251	39,081,000	3,395,251	8.7	36,752,037
Retail Sales and Use Taxes (f)	2,798,102	2,821,139	25,506,531	25,187,000	319,531	1.3	23,699,237
Pooled Money Investment Interest	25,467	14,684	167,339	166,000	1,339	0.8	120,126
Not Otherwise Classified	125,627	131,782	1,684,799	1,888,000	(203,201)	(10.8)	3,830,077
Total Revenues (f)	**9,609,424**	**8,794,284**	**85,447,296**	**76,483,000**	**8,964,296**	**11.7**	**75,482,847**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	1,448,000	2,216,023	(768,023)	(34.7)	2,524,497
Transfers from Other Funds	71,391	173,773	487,988	1,184,244	(696,256)	(58.8)	895,577
Transfers from Economic Recovery Fund	-	2,914,720	-	-	-	-	11,254,000
Miscellaneous	32,333	26,593	553,658	438,009	115,649	26.4	482,897
Total Nonrevenues	**103,724**	**3,115,086**	**2,489,646**	**3,838,276**	**(1,348,630)**	**(35.1)**	**15,156,971**
Total Receipts	**$ 9,713,148**	**$ 11,909,370**	**$ 87,936,942**	**$ 80,321,276**	**$ 7,615,666**	**9.5**	**$ 90,639,818**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
	2005	2004	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 57,051	$ 66,046	$ 1,298,574	$ 1,102,077	$ 196,497	17.8	$ 1,261,202
State and Consumer Services	40,838	27,117	509,350	529,282	(19,932)	(3.8)	468,069
Business, Transportation and Housing	(313)	(1)	3,386	4,228	(842)	(19.9)	5,719
Resources	39,381	17,704	761,199	642,293	118,906	18.5	714,746
Environmental Protection Agency	3,323	5,793	50,461	54,791	(4,330)	(7.9)	77,648
Health and Human Services:							
Health Services	6,494	(2,047)	258,528	251,776	6,752	2.7	229,969
Mental Health Hospitals	30,408	38,894	571,258	659,258	(88,000)	(13.3)	524,381
Other Health and Human Services	20,675	39,037	589,512	590,357	(845)	(0.1)	632,042
Education:							
University of California	9,982	9,531	2,670,057	2,715,801	(45,744)	(1.7)	2,919,292
State Universities and Colleges	309,709	255,146	2,488,257	2,439,392	48,865	2.0	2,615,895
Other Education	9,193	11,432	146,158	149,620	(3,462)	(2.3)	153,346
Corrections and Youth Authority	522,458	460,556	6,364,036	6,060,794	303,242	5.0	5,042,508
General Government (d)	130,894	87,713	1,265,848	1,082,953	182,895	16.9	1,157,239
Public Employees Retirement System	(138,842)	(117,454)	(63,151)	(433,079)	369,928	-	(146,560)
Debt Service	220,633	109,080	3,032,522	3,121,495	(88,973)	(2.9)	1,860,442
Interest on Loans	152,702	270,682	89,360	142,845	(53,485)	(37.4)	282,573
Total State Operations	**1,414,586**	**1,279,229**	**20,035,355**	**19,113,883**	**921,472**	**4.8**	**17,798,511**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	199,955	305,434	29,428,525	31,109,869	(1,681,344)	(5.4)	25,678,841
Community Colleges	137,572	120,988	3,042,733	3,030,790	11,943	0.4	2,280,341
Debt Service School Building Bonds	-	-	-	(12,656)	12,656	-	-
Contributions to State Teachers' Retirement System	-	-	1,148,792	1,150,842	(2,050)	-	509,763
Other Education (e)	132,492	(13,990)	2,325,743	2,119,274	206,469	9.7	2,149,852
Corrections and Youth Authority	136	9,551	214,051	167,876	46,175	27.5	144,739
Dept. of Alcohol and Drug Program	(4,502)	13,024	227,987	229,672	(1,685)	(0.7)	209,868
Dept. of Health Services:							
Medical Assistance Program	987,446	922,481	11,484,288	11,836,502	(352,214)	(3.0)	10,852,486
Other Health Services	36,429	84,929	495,354	407,212	88,142	21.6	446,401
Dept. of Developmental Services	32,627	18,764	1,604,536	1,825,989	(221,453)	(12.1)	1,602,228
Dept. of Mental Health	(138,426)	(51,386)	98,471	307,723	(209,252)	(68.0)	383,796
Dept. of Social Services:							
SSI/SSP/IHSS	230,553	346,654	4,580,336	4,839,686	(259,350)	(5.4)	4,219,940
CalWORKs	82,207	78,678	2,671,866	2,966,469	(294,603)	(9.9)	3,035,140
Other Social Services	62,660	72,007	1,145,377	1,167,068	(21,691)	(1.9)	1,074,323
Tax Relief	6,594	485,913	667,334	669,827	(2,493)	(0.4)	3,654,364
Other Local Assistance	70,393	91,665	2,582,555	2,460,700	121,855	5.0	2,595,966
Total Local Assistance	**1,836,136**	**2,484,712**	**61,717,948**	**64,276,843**	**(2,558,895)**	**(4.0)**	**58,838,048**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2005				2004
	2005	2004	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**13,646**	**82,832**	**84,665**	**53,495**	**31,170**	**58.3**	**385,372**
PAYMENT TO DEFICIT RECOVERY FUND	**-**	**-**	**2,012,000**	**2,012,000**	**-**	**-**	**-**
OFFSETS FROM ECONOMIC RECOVERY BONDS & PUNITIVE DAMAGES	**-**	**-**	**(2,012,000)**	**(2,462,000)**	**450,000**	**-**	**-**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	768,000	(768,000)	(100.0)	2,216,000
Transfer to Other Funds	45,950	120,627	141,938	407,312	(265,374)	(65.2)	431,270
Transfer to Revolving Fund	(17,674)	(34,111)	35,650	-	35,650	-	(69,515)
Advance:							
State-County Property Tax Administration Program	-	-	-	-	-	-	-
Social Welfare Federal Fund	(1,061)	(14,900)	(37,582)	-	(37,582)	-	(45,093)
Tax Relief and Refund Account	(56,700)	(48,000)	-	-	-	-	-
Counties for Social Welfare	560,974	500,435	60,539	23,831	36,708	154.0	19,976
Total Nongovernmental	**531,489**	**524,051**	**200,545**	**1,199,143**	**(998,598)**	**(83.3)**	**2,552,638**
Total Disbursements	**$ 3,795,857**	**$ 4,370,824**	**$ 82,038,513**	**$ 84,193,364**	**$ (2,154,851)**	**(2.6)**	**$ 79,574,569**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ -	$ 768,000	$ (768,000)	(100.0)	$ -
Other Internal Sources	-	-	-	2,565,729	(2,565,729)	(100.0)	-
Revenue Anticipation Notes	(6,000,000)	(3,000,000)	-	-	-	-	-
2003 Revenue Anticipation Warrants	-	(10,965,000)	-	-	-	-	(10,965,000)
Net Increase / (Decrease) Loans	**$ (6,000,000)**	**$ (13,965,000)**	**$ -**	**$ 3,333,729**	**$ (3,333,729)**	**(100.0)**	**$ (10,965,000)**

See notes on page 1.

(Concluded)

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STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

March 2006

STEVE WESTLY
California State Controller

STEVE WESTLY
California State Controller

April 10, 2006

Users of the Statement of General Fund Cash Receipts and Disbursements:

Attached are the Statements of General Fund Cash Receipts and Disbursements for the period July 1, 2005 through March 31, 2006. These statements reflect the State of California's General Fund cash position and compare actual receipts and disbursements for the 2005-06 fiscal year to cash flow estimates prepared by the Department of Finance for the 2006-07 Governor's Budget and the 2005-06 Budget Act. These statements are prepared in compliance with Provision 9 of Budget Act item 0840-001-0001.

Attachment A compares actual receipts and disbursements to date for the 2005-06 fiscal year to cash flow estimates published in the 2006-07 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by the Department of Finance in preparation of the Governor's Budget.

Attachment B compares actual receipts and disbursements to date for the 2005-06 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2005-06 Budget Act. Prior year actual amounts are also displayed for comparative purposes.

These statements are also available at http://www.sco.ca.gov/ard/cash/index.shtml.

Any questions concerning this report may be directed to Michael Carter, Chief Operating Officer, at (916) 552-8080.

Sincerely,

Original Signed By:

STEVE WESTLY

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 ♦ P.O. Box 942850, Sacramento, CA 94250
PHONE: (916) 445-2636 ♦ Fax: (916) 445-6379 ♦ Web Address: www.sco.ca.gov♦ E-Mail: steve@sco.ca.gov

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2006-07 Governor's Budget Estimates
(Amounts in thousands)
Attachment A

	July 1 through March 31				
	2006				2005
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 6,436,788**	**$ 6,436,788**	**$ -**	**-**	**$ 538,359**
Add Receipts:					
Revenues	61,590,609	60,607,176	983,433	1.6	55,195,156
Nonrevenues	798,214	602,653	195,561	32.5	2,176,398
Total Receipts	62,388,823	61,209,829	1,178,994	1.9	57,371,554
Less Disbursements:					
State Operations	16,655,752	16,609,386	46,366	0.3	15,375,429
Local Assistance	57,059,690	57,154,605	(94,915)	(0.2)	51,871,111
Capital Outlay	677,709	1,081,454	(403,745)	(37.3)	59,737
Nongovernmental	(240,849)	269,192	(510,041)	(189.5)	(364,996)
Total Disbursements	74,152,302	75,114,637	(962,335)	(1.3)	66,941,281
Receipts Over / (Under) Disbursements	(11,763,479)	(13,904,808)	2,141,329	-	(9,569,727)
Net Increase / (Decrease) in Temporary Loans	5,326,691	7,468,020	(2,141,329)	(28.7)	9,031,368
GENERAL FUND ENDING CASH BALANCE	**-**	**-**	**-**	**-**	**-**
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**	**-**	**$ -**

	Actual	Estimate (a)	Amount	%	Actual
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 13,052,186	$ 13,864,261	$ (812,075)	(5.9)	$ 15,758,779
Outstanding Loans (b)	5,326,691	7,468,020	(2,141,329)	(28.7)	9,031,368
Unused Borrowable Resources	$ 7,725,495	$ 6,396,241	$ 1,329,254	20.8	$ 6,727,411

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2005-06 fiscal year prepared by the Department of Finance for the 2006-07 Governor's Budget. Any projections or estimates are set forth as such and not as representations of fact.
(b) Cumulative loan balance of $5.3 billion is comprised of $2.3 billion of internal borrowing and $3.0 billion in external borrowing.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) July 2005 Other Local Assistance includes $1.1 billion for the motor vehicle license fee "backfill gap" payment to Local Governments.
(e) Includes School Facility Aid Program that was previously displayed separately.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
	2006	2005	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 22,199	$ 24,735	$ 238,527	$ 236,396	$ 2,131	0.9	$ 234,007
Corporation Tax	1,575,361	1,792,122	6,672,708	6,251,394	421,314	6.7	6,237,412
Cigarette Tax	14,950	7,662	87,876	83,069	4,807	5.8	86,511
Estate, Inheritance, and Gift Tax	7,871	26,210	120,734	102,028	18,706	18.3	368,111
Insurance Companies Tax	102,275	71,617	1,248,350	1,450,786	(202,436)	(14.0)	1,116,805
Personal Income Tax	1,974,263	1,490,601	30,956,005	30,492,390	463,615	1.5	27,470,589
Retail Sales and Use Taxes	2,796,888	1,972,793	20,178,767	19,788,031	390,736	2.0	18,279,274
Pooled Money Investment Interest	34,347	15,033	272,088	276,453	(4,365)	(1.6)	104,005
Not Otherwise Classified	147,054	88,919	1,815,554	1,926,629	(111,075)	(5.8)	1,298,442
Total Revenues	**6,675,208**	**5,489,692**	**61,590,609**	**60,607,176**	**983,433**	**1.6**	**55,195,156**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	1,448,000
Transfers from Other Funds	104,675	4,758	266,883	192,725	74,158	38.5	315,545
Miscellaneous	23,095	9,741	531,331	409,928	121,403	29.6	412,853
Total Nonrevenues	**127,770**	**14,499**	**798,214**	**602,653**	**195,561**	**32.5**	**2,176,398**
Total Receipts	**$ 6,802,978**	**$ 5,504,191**	**$ 62,388,823**	**$ 61,209,829**	**$ 1,178,994**	**1.9**	**$ 57,371,554**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
	2006	2005	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 100,051	$ 82,973	$ 1,078,079	$ 1,115,540	$ (37,461)	(3.4)	$ 1,044,594
State and Consumer Services	35,308	39,138	406,232	421,645	(15,413)	(3.7)	374,249
Business, Transportation and Housing	(408)	(453)	5,095	5,561	(466)	(8.4)	4,348
Resources	33,838	45,686	671,137	653,161	17,976	2.8	679,279
Environmental Protection Agency	3,083	1,328	42,307	38,823	3,484	9.0	31,854
Health and Human Services:							
Health Services	2,429	32,851	227,272	232,416	(5,144)	(2.2)	236,506
Mental Health Hospitals	50,419	38,003	581,691	592,239	(10,548)	(1.8)	461,631
Other Health and Human Services	43,953	31,238	552,775	457,390	95,385	20.9	461,466
Education:							
University of California	337,191	272,077	2,489,088	2,349,604	139,484	5.9	2,343,024
State Universities and Colleges	267,733	192,575	1,801,926	1,843,102	(41,176)	(2.2)	1,719,337
Other Education	6,308	1,144	123,730	130,618	(6,888)	(5.3)	109,722
Corrections and Youth Authority	593,392	524,285	5,360,418	5,481,776	(121,358)	(2.2)	4,746,508
General Government	97,802	87,068	954,922	912,177	42,745	4.7	948,137
Public Employees Retirement System	(137,932)	(137,056)	2,283	19,743	(17,460)	(88.4)	(61,250)
Debt Service	263,029	246,264	2,361,611	2,373,688	(12,077)	(0.5)	2,339,371
Interest on Loans	12,027	5,168	(2,814)	(18,097)	15,283	-	(63,347)
Total State Operations	**1,708,223**	**1,462,289**	**16,655,752**	**16,609,386**	**46,366**	**0.3**	**15,375,429**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,226,267	1,920,808	26,814,757	27,359,865	(545,108)	(2.0)	25,157,974
Community Colleges	231,278	236,966	2,741,512	2,713,987	27,525	1.0	2,601,441
Contributions to State Teachers' Retirement System	-	-	963,802	963,802	-	-	1,000,163
Other Education (e)	55,006	153,183	2,384,831	1,967,319	417,512	21.2	2,039,635
Corrections and Youth Authority	21,712	765	148,732	219,513	(70,781)	(32.2)	211,978
Dept. of Alcohol and Drug Program	29,824	4,460	217,479	171,516	45,963	26.8	206,340
Dept. of Health Services:							
Medical Assistance Program	1,583,893	1,258,137	9,950,160	9,698,405	251,755	2.6	8,782,599
Other Health Services	84,021	56,090	508,242	399,797	108,445	27.1	395,038
Dept. of Developmental Services	230,426	240,998	1,630,974	1,584,349	46,625	2.9	1,576,380
Dept. of Mental Health	(74,234)	18,002	471,691	597,956	(126,265)	(21.1)	272,331
Dept. of Social Services:							
SSI/SSP/IHSS	282,932	200,790	3,799,550	4,089,859	(290,309)	(7.1)	3,890,093
CalWORKs	105,426	114,396	2,516,491	2,410,310	106,181	4.4	2,166,919
Other Social Services	41,373	92,591	868,482	900,955	(32,473)	(3.6)	935,894
Tax Relief	2,075	6,582	439,796	506,607	(66,811)	(13.2)	440,179
Other Local Assistance (d)	237,400	76,430	3,603,191	3,570,365	32,826	0.9	2,194,147
Total Local Assistance	**5,057,399**	**4,380,198**	**57,059,690**	**57,154,605**	**(94,915)**	**(0.2)**	**51,871,111**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
	2006	2005	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,011**	**5,847**	**677,709**	**1,081,454**	**(403,745)**	**(37.3)**	**59,737**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	557,482	(557,482)	(100.0)	-
Transfer to Other Funds	30,000	1,344	209,123	152,246	56,877	37.4	91,958
Transfer to Revolving Fund	4,999	(4,773)	75,414	61,410	14,004	22.8	67,825
Advance:							
State-County Property Tax Administration Program	-	-	-	-	-	-	-
Social Welfare Federal Fund	22,684	(370)	35,588	14,928	20,660	138.4	(24,344)
Tax Relief and Refund Account	-	-	-	44,100	(44,100)	(100.0)	-
Counties for Social Welfare	-	-	(560,974)	(560,974)	-	-	(500,435)
Total Nongovernmental	**57,683**	**(3,799)**	**(240,849)**	**269,192**	**(510,041)**	**(189.5)**	**(364,996)**
Total Disbursements	**$ 6,827,316**	**$ 5,844,535**	**$ 74,152,302**	**$ 75,114,637**	**$ (962,335)**	**(1.3)**	**$ 66,941,281**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (103,312)	$ -	$ 641,229	$ 1,302,023	$ (660,794)	(50.8)	$ 766,572
Other Internal Sources	127,650	340,344	1,685,462	3,165,997	(1,480,535)	(46.8)	2,264,796
Revenue Anticipation Notes	-	-	3,000,000	3,000,000	-	-	6,000,000
Net Increase / (Decrease) Loans	**$ 24,338**	**$ 340,344**	**$ 5,326,691**	**$ 7,468,020**	**$ (2,141,329)**	**(28.7)**	**$ 9,031,368**

See notes on page 1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through March 31			
	General Fund		Special Funds	
	2006	2005	2006	2005
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 238,527	$ 234,007	$ -	$ -
Corporation Tax	6,672,708	6,237,412	-	-
Cigarette Tax	87,876	86,511	728,412	716,560
Estate, Inheritance, and Gift Tax	120,734	368,111	-	-
Insurance Companies Tax	1,248,350	1,116,805	-	-
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	2,146,511	2,167,122
Diesel & Liquid Petroleum Gas	-	-	423,413	390,448
Jet Fuel Tax	-	-	(5,947)	1,932
Vehicle License Fees	-	-	1,670,523	1,582,357
Motor Vehicle Registration and Other Fees	-	-	2,123,504	2,016,805
Personal Income Tax	30,956,005	27,470,589	538,131	62,340
Retail Sales and Use Taxes	20,178,767	18,279,274	5,359,366	4,862,876
Pooled Money Investment Interest	272,088	104,005	404	118
Total Major Taxes, Licenses, and Investment Income	**59,775,055**	**53,896,714**	**12,984,317**	**11,800,558**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	3,292	2,227	32,067	33,382
Electrical Energy Tax	-	-	346,976	394,545
Private Rail Car Tax	6,946	6,561	-	-
Penalties on Traffic Violations	-	-	60,330	59,355
Health Care Receipts	10,005	7,943	-	-
Revenues from State Lands	196,197	145,507	21,430	500
Abandoned Property	321,826	606,525	-	-
Trial Court Revenues	43,930	41,693	799,944	773,002
Horse Racing Fees	1,677	1,883	26,270	25,929
Miscellaneous	1,231,681	486,103	5,970,672	5,327,822
Not Otherwise Classified	**1,815,554**	**1,298,442**	**7,257,689**	**6,614,535**
Total Revenues, All Governmental Cost Funds	**$ 61,590,609**	**$ 55,195,156**	**$ 20,242,006**	**$ 18,415,093**

See notes on page 1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2005-06 Budget Act Estimates
(Amounts in thousands)
Attachment B

	July 1 through March 31				
	2006				2005
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 6,436,788**	**$ 6,436,788**	**$ -**	**-**	**$ 538,359**
Add Receipts:					
Revenues	61,590,609	57,083,000	4,507,609	7.9	55,195,156
Nonrevenues	798,214	455,844	342,370	75.1	2,176,398
Total Receipts	62,388,823	57,538,844	4,849,979	8.4	57,371,554
Less Disbursements:					
State Operations	16,655,752	16,303,029	352,723	2.2	15,375,429
Local Assistance	57,059,690	57,509,180	(449,490)	(0.8)	51,871,111
Capital Outlay	677,709	1,061,661	(383,952)	(36.2)	59,737
Nongovernmental	(240,849)	(61,685)	(179,164)	-	(364,996)
Total Disbursements	74,152,302	74,812,185	(659,883)	(0.9)	66,941,281
Receipts Over / (Under) Disbursements	(11,763,479)	(17,273,341)	5,509,862	-	(9,569,727)
Net Increase / (Decrease) in Temporary Loans	5,326,691	10,836,553	(5,509,862)	(50.8)	9,031,368
GENERAL FUND ENDING CASH BALANCE	**-**	**-**	**-**	**-**	**-**
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**	**-**	**$ -**

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 13,052,186	$ 13,750,167	$ (697,981)	(5.1)	$ 15,758,779
Outstanding Loans (b)	5,326,691	10,836,553	(5,509,862)	(50.8)	9,031,368
Unused Borrowable Resources	$ 7,725,495	$ 2,913,614	$ 4,811,881	165.2	$ 6,727,411

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2005-06 fiscal year prepared by the Department of Finance for the Budget Act of 2005. Any projections or estimates are set forth as such and not as representations of fact.
(b) Cumulative loan balance of $5.3 billion is comprised of $2.3 billion in internal borrowing and $3.0 billion in external borrowing.
(c) Negative balances are the result of repayments received that are greater than disbursements made.
(d) July 2005 Other Local Assistance includes $1.1 billion for the motor vehicle license fee "backfill gap" payment to Local Governments.
(e) Includes School Facility Aid Program that was previously displayed separately.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
	2006	2005	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 22,199	$ 24,735	$ 238,527	$ 236,000	$ 2,527	1.1	$ 234,007
Corporation Tax	1,575,361	1,792,122	6,672,708	5,556,000	1,116,708	20.1	6,237,412
Cigarette Tax	14,950	7,662	87,876	88,000	(124)	(0.1)	86,511
Estate, Inheritance, and Gift Tax	7,871	26,210	120,734	69,000	51,734	75.0	368,111
Insurance Companies Tax	102,275	71,617	1,248,350	1,108,000	140,350	12.7	1,116,805
Personal Income Tax	1,974,263	1,490,601	30,956,005	28,220,000	2,736,005	9.7	27,470,589
Retail Sales and Use Taxes	2,796,888	1,972,793	20,178,767	19,673,000	505,767	2.6	18,279,274
Pooled Money Investment Interest	34,347	15,033	272,088	235,000	37,088	15.8	104,005
Not Otherwise Classified	147,054	88,919	1,815,554	1,898,000	(82,446)	(4.3)	1,298,442
Total Revenues	**6,675,208**	**5,489,692**	**61,590,609**	**57,083,000**	**4,507,609**	**7.9**	**55,195,156**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	1,448,000
Transfers from Other Funds	104,675	4,758	266,883	105,122	161,761	153.9	315,545
Miscellaneous	23,095	9,741	531,331	350,722	180,609	51.5	412,853
Total Nonrevenues	**127,770**	**14,499**	**798,214**	**455,844**	**342,370**	**75.1**	**2,176,398**
Total Receipts	**$ 6,802,978**	**$ 5,504,191**	**$ 62,388,823**	**$ 57,538,844**	**$ 4,849,979**	**8.4**	**$ 57,371,554**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
					Actual Over or (Under) Estimate		
	2006	2005	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 100,051	$ 82,973	$ 1,078,079	$ 1,122,770	$ (44,691)	(4.0)	$ 1,044,594
State and Consumer Services	35,308	39,138	406,232	411,050	(4,818)	(1.2)	374,249
Business, Transportation and Housing	(408)	(453)	5,095	5,422	(327)	(6.0)	4,348
Resources	33,838	45,686	671,137	690,716	(19,579)	(2.8)	679,279
Environmental Protection Agency	3,083	1,328	42,307	34,083	8,224	24.1	31,854
Health and Human Services:							
Health Services	2,429	32,851	227,272	228,298	(1,026)	(0.4)	236,506
Mental Health Hospitals	50,419	38,003	581,691	685,049	(103,358)	(15.1)	461,631
Other Health and Human Services	43,953	31,238	552,775	319,598	233,177	73.0	461,466
Education:							
University of California	337,191	272,077	2,489,088	2,301,511	187,577	8.2	2,343,024
State Universities and Colleges	267,733	192,575	1,801,926	1,926,990	(125,064)	(6.5)	1,719,337
Other Education	6,308	1,144	123,730	120,619	3,111	2.6	109,722
Corrections and Youth Authority	593,392	524,285	5,360,418	5,028,158	332,260	6.6	4,746,508
General Government	97,802	87,068	954,922	965,208	(10,286)	(1.1)	948,137
Public Employees Retirement System	(137,932)	(137,056)	2,283	4,642	(2,359)	(50.8)	(61,250)
Debt Service	263,029	246,264	2,361,611	2,456,571	(94,960)	(3.9)	2,339,371
Interest on Loans	12,027	5,168	(2,814)	2,344	(5,158)	(220.1)	(63,347)
Total State Operations	**1,708,223**	**1,462,289**	**16,655,752**	**16,303,029**	**352,723**	**2.2**	**15,375,429**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,226,267	1,920,808	26,814,757	27,271,674	(456,917)	(1.7)	25,157,974
Community Colleges	231,278	236,966	2,741,512	2,815,341	(73,829)	(2.6)	2,601,441
Contributions to State Teachers' Retirement System	-	-	963,802	963,803	(1)	(0.0)	1,000,163
Other Education (e)	55,006	153,183	2,384,831	2,047,257	337,574	16.5	2,039,635
Corrections and Youth Authority	21,712	765	148,732	222,973	(74,241)	(33.3)	211,978
Dept. of Alcohol and Drug Program	29,824	4,460	217,479	221,453	(3,974)	(1.8)	206,340
Dept. of Health Services:							
Medical Assistance Program	1,583,893	1,258,137	9,950,160	10,054,748	(104,588)	(1.0)	8,782,599
Other Health Services	84,021	56,090	508,242	304,491	203,751	66.9	395,038
Dept. of Developmental Services	230,426	240,998	1,630,974	1,764,045	(133,071)	(7.5)	1,576,380
Dept. of Mental Health	(74,234)	18,002	471,691	493,150	(21,459)	(4.4)	272,331
Dept. of Social Services:							
SSI/SSP/IHSS	282,932	200,790	3,799,550	4,118,267	(318,717)	(7.7)	3,890,093
CalWORKs	105,426	114,396	2,516,491	2,276,396	240,095	10.5	2,166,919
Other Social Services	41,373	92,591	868,482	901,121	(32,639)	(3.6)	935,894
Tax Relief	2,075	6,582	439,796	442,878	(3,082)	(0.7)	440,179
Other Local Assistance (d)	237,400	76,430	3,603,191	3,611,583	(8,392)	(0.2)	2,194,147
Total Local Assistance	**5,057,399**	**4,380,198**	**57,059,690**	**57,509,180**	**(449,490)**	**(0.8)**	**51,871,111**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2006				2005
	2006	2005	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,011**	**5,847**	**677,709**	**1,061,661**	**(383,952)**	**(36.2)**	**59,737**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	557,482	(557,482)	(100.0)	-
Transfer to Other Funds	30,000	1,344	209,123	137,207	71,916	52.4	91,958
Transfer to Revolving Fund	4,999	(4,773)	75,414	-	75,414	-	67,825
Advance:							
State-County Property Tax Administration Program	-	-	-	-	-	-	-
Social Welfare Federal Fund	22,684	(370)	35,588	-	35,588	-	(24,344)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(560,974)	(756,374)	195,400	-	(500,435)
Total Nongovernmental	**57,683**	**(3,799)**	**(240,849)**	**(61,685)**	**(179,164)**	**-**	**(364,996)**
Total Disbursements	**$ 6,827,316**	**$ 5,844,535**	**$ 74,152,302**	**$ 74,812,185**	**$ (659,883)**	**(0.9)**	**$ 66,941,281**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (103,312)	$ -	$ 641,229	$ 1,302,023	$ (660,794)	(50.8)	$ 766,572
Other Internal Sources	127,650	340,344	1,685,462	6,534,530	(4,849,068)	(74.2)	2,264,796
Revenue Anticipation Notes	-	-	3,000,000	3,000,000	-	-	6,000,000
Net Increase / (Decrease) Loans	**$ 24,338**	**$ 340,344**	**$ 5,326,691**	**$ 10,836,553**	**$ (5,509,862)**	**(50.8)**	**$ 9,031,368**

See notes on page 1.

(Concluded)

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APPENDIX B

DTC AND THE BOOK–ENTRY SYSTEM

The information in the following section entitled "DTC's Book–Entry System" has been provided by DTC for use in securities offering documents, and the State takes no responsibility for the accuracy or completeness thereof. The State cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC's Book–Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully–registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully–registered Bond certificate will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC is a limited–purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non–U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post–trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book–entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly–owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book–entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The State Treasurer will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners; in the alternative, . Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State Treasurer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or the State Treasurer, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

If the State Treasurer determines not to continue the DTC book–entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the beneficial owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

THE STATE TREASURER, AS LONG AS A BOOK–ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed as of April ___, 2006, by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of $300,000,000 aggregate principal amount of the State of California Various Purpose General Obligation Bonds and $237,555,000 aggregate principal amount of the State of California General Obligation Refunding Bonds (collectively, the "Bonds") as authorized by various acts of the State of California legislature (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions"), created under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

SECTION 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean the Annual Report filed by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Central Post Office" means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission (the "SEC") as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository certified by the SEC to be the recipient of information of the nature of the Annual Reports required by this Disclosure Certificate.

"Official Statement" shall mean the official statement relating to the Bonds, dated April 12, 2006.

"Participating Underwriter" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2–12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity within the State created for the purpose of receiving information of the nature of the reports of material events required by this Disclosure Certificate and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report containing 2005–2006 Fiscal Year financial information, provide an Annual Report consistent with the requirements of this Disclosure Certificate (an "Annual Report") to each Repository; provided that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The State Treasurer shall make a copy of any Annual Report available to any person who requests a copy at a cost not exceeding the reasonable cost of duplication and delivery. The State reserves the right to make this filing through the Central Post Office.

(b) If in any year, the State Treasurer does not provide the Annual Report to each Repository by the time specified above, the State Treasurer shall instead file a notice with each Repository stating that the Annual Report has not been timely completed and, if known, stating the date by which the State Treasurer expects to file the Annual Report.

(c) If the Dissemination Agent is not the State Treasurer, the Dissemination Agent shall:

1. determine each year prior to the date for filing the Annual Report the name and address of each Repository then certified by the SEC;

2. file a report with the State Treasurer certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing all the Repositories with which it was filed and the dates of the filings; and

3. take any other actions mutually agreed to between the Dissemination Agent and the State Treasurer.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(1) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the

Annual Report is required to be filed pursuant to this Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(2) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating the following tables which appear under the caption APPENDIX A — "THE STATE OF CALIFORNIA — CURRENT STATE BUDGET" in the Official Statement:

<u>Table Entitled</u>

Statement of Revenues, Expenditures, and Changes in Fund Balance — General Fund

Major General Fund Revenue Sources and Expenditures

(3) Information concerning the total amount of the State's authorized and outstanding debt, long–term lease obligations and other long–term liabilities as of the end of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short–term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease–purchase debt. This shall be accomplished by updating the following tables which appear under the caption APPENDIX A — "THE STATE OF CALIFORNIA — STATE DEBT TABLES" in the Official Statement.

<u>Table Entitled</u>

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Lease Revenue Bonds — Summary of Debt Service Requirements

Schedule of Debt Service Requirements for General Fund Non–Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for General Fund Non–Self Liquidating Bonds — Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund Self Liquidating Bonds — Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund
Self Liquidating Bonds — Variable Rate

Schedule of Debt Service Requirements for Lease–Purchase Debt

State Public Works Board and Other
Lease–Purchase Financing Outstanding Issues

State Agency Revenue Bonds and
Conduit Financing

The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with each of the Repositories, including any final official statement (in which case such final official statement must also be available from the Municipal Securities Rulemaking Board). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the State Treasurer, on behalf of the State, shall give, or cause to be given, prompt notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non–payment related defaults;
3. modifications to rights of Holders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax–exempt status of the Bonds;
8. unscheduled draws on debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform; or
11. release, substitution or sale of property securing repayment of the Bonds.

The State Treasurer notes that items 8 and 11 are not applicable to the Bonds.

(b) The State Treasurer shall timely file a notice of the occurrence of a Listed Event, which is material under applicable federal securities laws, with the Municipal Securities Rulemaking Board and each Repository.

(c) The State reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The State's obligations under Section 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the outstanding Bonds. If such termination occurs prior to the final maturity of the Bonds, the State Treasurer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend or waive any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), or 8, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60% of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The State also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 11. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 12. Governing Law. The laws of the State of California shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in Sacramento County, California.

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

By ______________________________

A Deputy State Treasurer
For State Treasurer, Philip Angelides

APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

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FORM OF FINAL OPINION OF EACH CO-BOND COUNSEL

[Closing Date]

$300,000,000
State of California
Various Purpose General Obligation Bonds

$237,555,000
State of California
General Obligation Refunding Bonds

(Final Opinion)

We have acted as Co-Bond counsel in connection with the issuance by the State of California (the "State") of $300,000,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds, issued as two separate series under two bond acts and $237,555,000 aggregate principal amount of State of California General Obligation Refunding Bonds, issued as six separate series under five bond acts, identified in Schedule A hereto (collectively, the "Bonds"). The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees created under the Laws.

In such connection, we have examined the Resolutions, the tax certificate of the State (the "Tax Certificate"), other certifications of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all documents and the signatures thereto.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in the documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions and the Tax Certificate, including (without limitation) agreements and covenants compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds as the principal and interest become due and payable.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of calculating the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

Schedule A

Construction Bonds

$295,000,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series H, authorized by the State School Building Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2004.

$5,000,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series V, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

Refunding Bonds

$23,035,000 principal amount of State of California Clean Air and Transportation Bonds, Series AS, authorized by the Transportation Improvement Finance Committee under the Clean Air and Transportation Improvement Act of 1990.

$95,230,000 principal amount of State of California Seismic Retrofit Bonds, Series AF, authorized by the Seismic Retrofit Finance Committee under the Seismic Retrofit Bond Act of 1996.

$82,865,000 principal amount of State of California Class Size Reduction Kindergarten-University Public Education Facilities Bonds, Series BN, authorized by the State School Building Finance Committee under the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998.

$19,950,000 principal amount of State of California Class Size Reduction Kindergarten-University Public Education Facilities Bonds, Series BO, authorized by the Higher Education Facilities Finance Committee under the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998.

$7,775,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series W, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

$8,700,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series W, authorized by the Higher Education Facilities Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2002.

FORM OF OPINION OF THE ATTORNEY GENERAL

[Closing Date]

The Honorable Philip Angelides
State Treasurer
Sacramento, California

$300,000,000
State of California
Various Purpose General Obligation Bonds

$237,555,000
State of California
General Obligation Refunding Bonds

Final Opinion

Honorable Philip Angelides:

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of $300,000,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds, issued as two separate series under two bond acts and $237,555,000 aggregate principal amount of State of California General Obligation Refunding Bonds, dated April 1, 2006, issued as six separate series under five bond acts, all identified in Schedule A hereto, which is incorporated by reference (collectively, the "Bonds"). The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees created under the Laws.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof.

We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions. We call attention to the fact that the rights and obligations under the Bonds and the Resolutions may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in State law regarding legal remedies against the State. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from

State of California personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated April 12, 2006 or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State of California are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable.

Sincerely,

____
Deputy Attorney General

For BILL LOCKYER
Attorney General

Schedule A

Construction Bonds

$295,000,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series H, authorized by the State School Building Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2004.

$5,000,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series V, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

Refunding Bonds

$23,035,000 principal amount of State of California Clean Air and Transportation Bonds, Series AS, authorized by the Transportation Improvement Finance Committee under the Clean Air and Transportation Improvement Act of 1990.

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$19,950,000 principal amount of State of California Class Size Reduction Kindergarten-University Public Education Facilities Bonds, Series BO, authorized by the Higher Education Facilities Finance Committee under the Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998.

$7,775,000 principal amount of State of California Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds, Series W, authorized by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act.

$8,700,000 principal amount of State of California Kindergarten-University Public Education Facilities Bonds, Series W, authorized by the Higher Education Facilities Finance Committee under the Kindergarten-University Public Education Facilities Bond Act of 2002.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

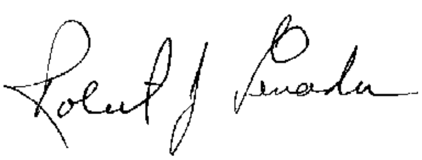
Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

Ambac

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

The Policy to which this endorsement is attached and of which it forms a part is hereby amended to provide that the payment by Ambac to the Insurance Trustee, for the benefit of the Bondholders/Obligees, of the principal of and interest on the Bonds/Obligations which shall become Due for Payment but which are unpaid by reason of Nonpayment by the Issuer/Obligor shall include any scheduled interest payment and required mandatory redemption of Bank Bonds [or the defined term used in Indenture] pursuant to Section [ ] of the __________[applicable financing document] between the Issuer/Obligor and ________________, dated as of __________ relating to the Bonds/Obligations [and the Standby Bond Purchase Agreement (if applicable)].

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Authorized Representative

Form No.: 2B-0076 (7/97)

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STATE OF CALIFORNIA • $300,000,000 VARIOUS PURPOSE GENERAL OBLIGATION BONDS • $237,555,000 GENERAL OBLIGATION REFUNDING BONDS